U.S. Treasury Dept.

Press releases.

Department of the TREASURY
NEWS
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20226
TELEPHONE 634-5248
1789

FOR IMMEDIATE RELEASE
Thursday, October 3, 1974

STATE OF MINNESOTA AND OFFICE OF REVENUE SHARING CONCLUDE JOINT AUDIT AGREEMENT

The U. S. Treasury Department's Office of Revenue Sharing and the State of Minnesota concluded joint audit agreements in St.Paul today. According to the terms of the pacts, Minnesota's State Auditor will assume responsibility for auditing general revenue sharing funds in more than 400 units of Minnesota local government , and the state's Legislative Auditor will audit the use of shared revenues by agencies of the state government.

The audits will be performed according to standards and procedures put forward by the Office of Revenue Sharing in its publication "Audit Guide and Standards for Revenue Sharing Recipients". Audits include both financial practices and compliance with civil rights and other provisions of the revenue sharing law.

The Minnesota agreements were signed at the State Capital in St.Paul today by Rolland F. Hatfield, Minnesota's State Auditor; Robert A. Whitaker, Minnesota's Legislative Auditor; and Graham W. Watt, Director of the U. S. Treasury Department's Office of Revenue Sharing.

Minnesota is the fourth state to sign a joint audit agreement with the Office of Revenue Sharing. Similar pacts were concluded earlier this year with the states of New York, Michigan and Tennessee. An agreement with the State of Illinois will be signed in Washington on October 7.

In accepting responsibility for making revenue sharing audits of state departments and agencies and local units of government, Minnesota has joined the Office of Revenue Sharing's Cooperative State Audit Program.

"The Cooperative State Audit Program we are developing with the assistance of state governments will make it possible to audit units of government that receive shared revenues at the least possible cost to all," according to Graham Watt. "The Federal government will not be required to duplicate an audit system already in place," he said.

In addition to information provided by states through the Cooperative State Audit Program, the Office of Revenue Sharing will perform its own audits on a random basis and investigate allegations of noncompliance with revenue sharing law whenever and wherever they may occur.

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As presently authorized, the general revenue sharing program will distribute $30.2 billion to nearly 39,000 units of state and local government over a five-year period that ends with December 1976. Already, more than $14 billion have been returned to states and local governments. The next regular, quarterly payment of shared revenues will be issued tomorrow.

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FOR IMMEDIATE RELEASE
Friday, October 4, 1974

OFFICE OF REVENUE SHARING ISSUES OCTOBER PAYMENT

The Treasury Department's Office of Revenue Sharing paid $1,532,628,558 to 50 states, the District of Columbia, and 34,819 units of local government today, in the ninth regular distribution of revenue sharing funds since December 1972.

The State and Local Fiscal Assistance Act of 1972 authorizes $30.2 billion of federal funds to be shared with states and local governments from January 1972 through December 1976. Today's payment brings to $15.82 billion the total amount sent to nearly 39,000 states, counties, cities, towns, townships, Indian tribes and Alaskan native villages thus far.

Approximately 3,000 local governments were not mailed their checks today, on schedule. Of these, 2,836 are governments whose October payments are being delayed because they failed to file one or both of two reports that are required of all recipient governments by revenue sharing law. The total amount of money being held for these governments is $8,534,307.

These funds will be paid by the Office of Revenue Sharing after the required reports have been received.

These reports are the Fifth Entitlement Period Planned Use Report (due to be returned to the Office of Revenue Sharing by June 24, 1974) and the second Actual Use Report (due by September 1, 1974). Each is a simple, one-page form.

The number of governments whose reports have not been received dropped from 6,000 to 2,836 in September as the result of an intensive effort by the Office of Revenue Sharing to encourage governments to file before the checks were prepared. Reminders were sent in the mail. Office of Revenue Sharing staff contacted the Governor's office in each state and requested help. And as many places as possible were called on the telephone.

Last year, approximately 9,000 units of government that had not returned their Planned and Actual Use Report forms did not receive their October checks on schedule.

"Recipient units of government are spending their shared revenues in a great variety of programs and projects," Graham W. Watt, Director of the Office of Revenue Sharing said in discussing today's payment.

In Hutchinson, Kansas, general revenue sharing money has been used to establish a legal aid service and to provide hot meals to the elderly and the poor.

Norfolk, Virginia has used some of its shared revenues to establish its first Consumer Protection Office.

Recreation facilities have been constructed in the poorer areas of Little Rock, Arkansas, using revenue sharing dollars.

Los Angeles County, California and New York City, New York both needed to use their money to subsidize mass transit fares.

In communities as far afield as Lubbock, Texas; Battle Creek, Michigan; Missoula County, Montana; and San Diego, California, specially-constituted committees of citizens and officials have developed procedures to involve individual citizens and community groups in local decisions regarding expenditures of shared revenues.

General revenue sharing checks are mailed to recipient units of general government on a regular, quarterly basis - in October, January, April and July. The funds are allocated each year according to formulas set forth in the State and Local Fiscal Assistance Act of 1972, using data supplied by the U. S. Bureau of the Census.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041
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FOR IMMEDIATE RELEASE October 1, 1974

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,700,000,000 , or thereabouts, to be issued October 10, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,700,000,000, or thereabouts, representing an additional amount of bills dated July 11, 1974, and to mature January 9, 1975 (CUSIP No. 912793 VQ6), originally issued in the amount of $1,903,625,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,000,000,000, or thereabouts, to be dated October 10, 1974, and to mature April 10, 1975 (CUSIP No. 912793 WD4).

The bills will be issued for cash and in exchange for Treasury bills maturing October 10, 1974, outstanding in the amount of $4,504,315,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,401,130,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, 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 one-thirty p.m., Eastern Daylight Saving time, Monday, October 7, 1974. Tenders will not be received at the Department of the Treasury, 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.

Banking institutions and dealers who make primary markets in Government

(OVER)

securities and report daily to the Federal Reserve Bank of New York their position 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.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. 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 or Branch on October 10, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 10, 1974. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

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

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

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FOR RELEASE AT 10:30 A.M., EDT
TUESDAY, OCTOBER 1, 1974

ADDRESS OF THE HONORABLE WILLIAM E. SIMON SECRETARY OF THE TREASURY OF THE UNITED STATES BEFORE THE 1974 ANNUAL MEETINGS OF THE BOARDS OF GOVERNORS OF THE INTERNATIONAL MONETARY FUND, INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, INTERNATIONAL FINANCE CORPORATION, AND INTERNATIONAL DEVELOPMENT ASSOCIATION AT THE SHERATON PARK HOTEL

WASHINGTON, D. C., OCTOBER 1, 1974

Mr. Chairman, Mr. Witteveen, Mr. McNamara, Fellow Governors, Distinguished Guests:

Our recent annual meetings have reflected encouraging changes in the international economic scene. Three years ago, our attention was focused on the New Economic Policy introduced by the United States to eliminate a long-standing imbalance in the world economy. Two years ago we launched a major reform of the international trade and payments system. Last year we developed the broad outlines of monetary reform.

This year circumstances are different. We face a world economic situation that is the most difficult since the years immediately after World War II.

Our predecessors in those early postwar years responded well to the great challenges of that period. I am confident we can also respond appropriately to the challenges of our day. But first we must identify the issues correctly.

Let me declare myself now on three of these key issues.

First, I do not believe the world is in imminent danger of a drift into cumulative recession -- though we must be alert and ready to act quickly should the situation change unexpectedly. I do believe the world must concentrate its attention and its efforts on the devastating inflation that confronts us.

Second, I do not believe the international financial market is about to collapse. I do believe that situations can arise in which individual countries may face serious problems in borrowing to cover oil and other needs. For that reason we must all stand prepared to take cooperative action should the need arise.

Third, I firmly believe that undue restrictions on the production of raw materials and commodities in order to bring about temporary increases in their prices threaten the prosperity of all nations and call into question our ability to maintain and strengthen an equitable and effective world trading order.

The Inflation Problem

With respect to the first of these issues, it is clear that most countries are no longer dealing with the familiar trade-off of the past, balancing a little more or less inflation against little more or less growth and employment. We are confronted with the threat of inflationary forces so strong and so persistent that they could jeopardize not only the prosperity but even the stability of our societies. A protracted continuation of inflation at present rates would place destructive strains on the framework of our present institutions -- financial, social and political.

Our current inflation developed from a combination of factors: in addition to pressures emanating from cartel pricing practices in oil, we have suffered from misfortune -- including bad weather affecting crops around the world; bad timing -- in the cyclical convergence of a worldwide boom; and bad policies -- reflected in years of excessive government spending and monetary expansion. As financial officials, we cannot be held responsible for the weather, but we must accept responsibility for government policies, and we must recommend policies that take fully into account the circumstances of the world in which we find ourselves.

In today's circumstances, in most countries, there is in my view no alternative to policies of balanced fiscal and monetary restraint. We must steer a course of firm, patient, persistent restraint of both public and private demand, and we must maintain this course for an extended period of time, until inflation rates decrease. We must restore the confidence of our citizens in our economic future and our ability to maintain strong and stable currencies.

Some are concerned that a determined international attack on inflation by fiscal and monetary restraint might push the world into a deep recession, even depression.

I recognize this concern, but I do not believe we should let it distort our judgment.

Of course, we must watch for evidence of excessive slack. The day is long past when the fight against inflation can be waged in any country by tolerating recession. We must remain vigilant to the danger of cumulative recession. But if there is some risk in moving too slowly to relax restraints, there is also a risk -- and I believe a much greater risk -- in moving too rapidly toward expansive policies. If we fail to persevere in our anti-inflation policies now, with the result that inflation becomes more severe, then in time countermeasures will be required that would be so drastic as to risk sharp downturns and disruptions in economic activity.

There is a tendency to lay much of the blame on the international transmission of inflation. Certainly with present high levels of world trade and investment, developments in any economy, be they adverse or favorable, are quickly carried to other economies. But that does not absolve any nation from responsibility to adapt its financial policies so as to limit inflation and to shield its people from the ultimate damage which inflation inflicts on employment, productivity and social justice in our societies.

Recycling and the Strength of Capital Markets

In addition to inflation, public concern has centered on methods of recycling oil funds and on whether we need new institutions to manage those flows.

So far, our existing complex of financial mechanisms, private and intergovernmental, has proved adequate to the task of recycling the large volumes of oil monies already moving in the system. Initially, the private financial markets played the major role, adapting in imaginative and constructive ways. More recently, government-to-government channels have increasingly been opened, and they will play a more important role as time goes by. New financing organizations have also been established by OPEC countries. Our international institutions -- and specifically the IMF and World Bank -- have redirected their efforts to provide additional ways of shifting funds from lenders to borrowers. The IMF responded rapidly in setting up its special oil facility.

In our experience over the period since the sharp increase in oil prices, three points stand out:

First, the amount of new investments abroad being accumulated by the oil-exporting countries is very large -- we estimate approximately $30 billion thus far in 1974.

Second, the net capital flow into the United States from all foreign sources, as measured by the U.S. current account deficit, has been small, about $2 billion so far this year. During the same period our oil import bill has been about $12 billion larger than it was in the comparable period last year.

Third, markets in the United States are channeling very large sums of money from foreign lenders to foreign borrowers. Our banks have increased their loans to foreigners by approximately $15 billion since the beginning of the year, while incurring liabilities to foreigners of a slightly larger amount. This is one kind of effective recycling. And while some have expressed concern that excessive oil funds would seek to flow to the United States, and would require special recycling efforts to move them out, the picture thus far has been quite different.

No one can predict for sure what inflows of funds to the U.S. will be in the future. But it is our firm intention to maintain open capital markets, and foreign borrowers will have free access to any funds which come here. The United States Government offers no special subsidies or inducements to attract capital here; neither do we place obstacles to outflows.

Nonetheless. some have expressed concern that the banking structure may not be able to cope with strains from the large financial flows expected in the period ahead. A major factor in these doubts has been the highly publicized difficulties of a small number of European banks and one American bank which have raised fears of widespread financial collapse.

The difficulties of these banks developed in an atmosphere of worldwide inflation and of rapid increases in interest rates. In these circumstances, and in these relatively few instances, serious management defects emerged. These difficulti were in no way the result of irresponsible or disruptive investment shifts by oil-exporting countries. Nor were they the result of any failure in recycling or of any general financial crisis in any country.

The lesson to be learned is this: in a time of rapid change in interest rates and in the amounts and directions of money flows, financial institutions must monitor their practices carefully. Regulatory and supervisory authorities too must be particularly vigilant. We must watch carefully to guard against mismanagement and speculative excesses, for example, in the forward exchange markets. And we must make certain that procedures for assuring the liquidity of our financial systems are maintained in good working order. Central banks have taken major steps to assure this result.

Although existing financial arrangements have responded reasonably well to the strains of the present situation, and we believe they will continue to do so, we recognize that this situation could change. We should remain alert to the potential need for new departures. We do not believe in an attitude of laissez-faire, come what may. If there is a clear need for additional international lending mechanisms, the United States will support their establishment.

We believe that various alternatives for providing such supplementary mechanisms should be given careful study. Whatever decision is made will have profound consequences for the future course of the world economy. We must carefully assess what our options are and carefully consider the full consequences of alternative courses of action. The range of possible future problems is a wide one, and many problems can be envisaged that will never come to pass. What is urgently needed now is careful preparation and probing analysis.

We must recognize that no recycling mechanism will insure that every country can borrow unlimited amounts. Of course, countries continue to have the responsibility to follow monetary, fiscal and other policies such that their requirements for foreign borrowing are limited.

But we know that facilities for loans on commercial or near-commercial terms are not likely to be sufficient for some developing countries whose economic situation requires that they continue to find funds on concessional terms. Traditional donors have continued to make their contributions of such funds, and oil-exporting countries have made some commitments to provide such assistance. Although the remaining financing problem for these countries is small in comparison with many other international flows, it is of immense importance for those countries affected. The new Development Committee which we are now establishing must give priority attention to the problems confronting these most seriously affected developing countries.

Trade in Primary Products

For the past two years, world trade in primary commodities has been subject to abnormal uncertainties and strains. Poor crops, unusually high industrial demand for raw materials, transport problems, and limited new investment in extractive industries have all contributed to tremendous changes in commodity prices. Unfortunately, new forms of trade restraint have also begun to appear.

In the past, efforts to build a world trading system were concentrated in opening national markets to imports. Clearly, we need now also to address the other side of the equation, that of supply.

The oil embargo, and the sudden and sharp increase in the price of oil, with their disruptive effects throughout the world economy, have, of course, brought these problems to the forefront of our attention.

The world faces a critical decision on access to many primary products. In the United States we have sought in those areas where we are exporters to show the way by maximum efforts to increase production. Market forces today result in the export of many items from wheat to coal which some believe we should keep at home. But we believe an open market in commodities will provide the best route to the investment and increased production needed by all nations.

We believe that cooperative, market-oriented solutions to materials problems will be most equitable and beneficial to all nations. We intend to work for such cooperative solutions.

Prospects for the Future

In the face of our current difficulties -- inflation, recycling, commodity problems -- I remain firmly confident that, with commitment, cooperation and coordination, reasonable price stability and financial stability can be restored.

The experience of the past year has demonstrated that although our economies have been disturbed by serious troubles, the international trade and payments system has stood the test.

Flexible exchange rates during this period have served us well. Despite enormous overall uncertainties, and sudden change in the prospects for particular economies, exchange markets have escaped crises that beset them in past years. The exchange rate structure has no longer been an easy mark for the speculator, and governments have not been limited to the dismal choice of either financing speculative flows or trying to hold them down by controls.

Another encouraging fact is that the framework of international cooperation has remained strong. Faced with the prospect of severe balance-of-payments deterioration, deficit countries have on the whole avoided short-sighted efforts to strengthen their current account positions by introducing restrictions and curtailing trade.

In the longer run, we look forward to reinforcing this framework of cooperation through a broad-gauged multilateral negotiation to strengthen the international trading system. In the "Tokyo Round," we hope to reach widespread agreement, both on trade <u>liberalization</u> measures -- helping all countries to use resources more efficiently through greater opportunities for exchange of goods and services -- and on trade <u>management</u> measures -- helping to solidify practices and procedures to deal with serious trade problems in a spirit of equity and joint endeavor. It is gratifying that more and more governments have recognized the opportunities -- and the necessity -- for successful, creative negotiations on trade.

We in the U.S. Government recognize our own responsibility to move these negotiations along. Early last year we proposed to our Congress the Trade Reform Act to permit full U.S. participation in the trade negotiations. It is clear that in the intervening months the need for such negotiations has become all the more urgent. We have therefore been working closely with the Congress on this crucial legislation, and we shall continue to work to insure its enactment before the end of this year.

In the whole field of international economic relations, I believe we are beginning to achieve a common understanding of the nature of the problems we face. There is greater public recognition that there lies ahead a long, hard worldwide struggle to bring inflation under control. Inflation is an international problem in our interdependent world, but the cure begins with the policies of national governments. Success will require, on the part of governments, uncommon determination and persistence. There is today increasing awareness that unreasonable short-term exploitation of a strong bargaining position to raise prices and costs, whether domestically or internationally, inevitably intensifies our problems.

Finally I am encouraged that our several years of intensive work to agree on improvements in the international monetary system have now begun to bear fruit. The discussions of the Committee of Twenty led to agreement on many important changes, some of which are to be introduced in an evolutionary manner and others of which we are beginning to implement at this meeting.

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For the immediate future, the IMF's new Interim Committee will bring to the Fund structure a needed involvement of world financial leaders on a regular basis, providing for them an important new forum for consideration of the financing of massive oil bills and the better coordination of national policies. The Interim Committee should also increasingly exercise surveillance over nations' policies affecting international payments, thereby gaining the experience from which additional agreed guidelines for responsible behavior may be derived.

Moreover, discussions in the Interim Committee can speed the consideration of needed amendments to the Fund's Articles of Agreement. These amendments, stemming from the work of the Committee of Twenty, will help to modernize the IMF and better equip it to deal with today's problems. For example, the Articles should be amended so as to remove inhibitions on IMF sales of gold in the private markets, so that the Fund, like other official financial institutions, can mobilize its resources when they are needed. In order to facilitate future quota increases, the package of amendments should also include a provision to modify the present requirement that 25 percent of a quota subscription be in gold. Such an amendment will be a prerequisite for the quota increase now under consideration. And the amendment will be necessary in any event for us to achieve the objectives shared by all the participants in the Committee of Twenty of removing gold from a central role in the system and of assuring that the SDR becomes the basis of valuation for all obligations to and from the IMF.

Preparation of an amendment to embody the results of the current quinquennial review of quotas offers us still another opportunity to reassess the Fund's role in helping to meet the payments problems of member nations in light of today's needs and under present conditions of relative flexibility in exchange rates.

The trade pledge agreed by the Committee of Twenty provides an additional framework for cooperative action in today's troubled economic environment. It will mitigate the potential danger in the present situation of self-defeating, competitive trade actions and bilateralism. The United States has notified its adherence to the pledge, and I urge other nations to join promptly in subscribing.

The new Development Committee, still another outgrowth of the work of the Committee of Twenty, will give us an independent forum that will improve our ability to examine comprehensively the broad spectrum of development issues. We look forward to positive results from this new Committee's critical work on the problems of the countries most seriously affected by the increase in commodity prices and on ways to ensure that the private capital markets make a maximum contribution to development.

The World Bank and Its Affiliates

International cooperation for development is also being strengthened in other ways, notably through the replenishment of IDA. A U.S. contributiuon of $1.5 billion to the fourth IDA replenishment has been authorized by Congress, and we are working with our congressional leaders to find a way to complete our ratification at the earliest possible date. A significant new group of countries has become financially able to join those extending development assistance on a major scale. We would welcome an increase in their World Bank capital accompanied by a commensurate participation in IDA.

The United States is proud of its role in the development of the World Bank over the past quarter century. We are confident that the Bank will respond to the challenges of the future as it has so successfully responded in the past.

One of these challenges is to concentrate the Bank's resources to accelerate growth in those developing countries with the greatest need.

A second challenge is to continue the Bank's annual transfer of a portion of its income to IDA. The recent increase in interest rates charged by the Bank is not sufficient to enable the Bank to continue transfers to IDA in needed amounts. We urge that the Bank's Board promptly find a way to increase significantly the average return from new lending.

A third challenge is that the Bank find ways to strengthen its commitment to the principle that project financing makes sense only in a setting of appropriate national economic policies, of effective mobilization and use of domestic resources, and of effective utilization of the private capital and the modern technology that is available internationally on a commercial basis.

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I should mention also that we are concerned about the Bank's capital position. We should encourage the Bank to seek ways to assist in the mobilization of funds by techniques which do not require the backing of the Bank's callable capital.

Within the Bank Group, we are accustomed to thinking mainly of the IFC in considering private capital financing. While now small, the IFC is, in my view, a key element in the total equation, and should be even more important in the future. But the Bank itself needs to renew its own commitment to stimulation of the private sectors of developing countries.

Finally, let me emphasize that the capable and dedicated leadership and staff of the World Bank have the full confidence and support of the United States as they face the difficult challenges of the current situation.

Conclusion

Ladies and Gentlemen, the most prosperous period in the history of mankind was made possible by an international framework which was a response to the vivid memories of the period of a beggar-thy-neighbor world. Faced with staggering problems, the founders of Bretton Woods were inspired to seek cooperative solutions in the framework of a liberal international economic order. Out of that experience evolved an awareness that our economic and political destinies are inextricably linked.

Today, in the face of another set of problems, we must again shape policies which reflect the great stake each nation has in the growth and prosperity of others. Because I believe that interdependence is a reality--one that all must sooner or later come to recognize--I remain confident that we will work out our problems in a cooperative manner.

The course which the United States will follow is clear. Domestically we will manage our economy firmly and responsibly, resigning ourselves neither to the inequities of continued inflation nor to the wastefulness of recession. We will strengthen our productive base, we will develop our own energy resources, we will expand our agricultural output. We will give the American people grounds for confidence in their future.

Internationally, let there be no doubt as to our course. We will work with those who would work with us. We make no pretense that we can, or should, try to solve these problems alone, but neither will we abdicate our responsibility to contribute to their solution. Together, we can solve our problems. Let me reaffirm our desire, and total commitment, to work with all nations to coordinate our policies to assure the lasting prosperity of all of our peoples.

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

FOR RELEASE UPON DELIVERY
OCTOBER 1, 1974

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REMARKS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE LATIN AMERICAN GOVERNORS LUNCHEON
SHERATON PARK HOTEL, WASHINGTON, D.C.
OCTOBER 1, 1974

I am pleased to have the opportunity to be together with my fellow Governors from Latin America, with President Ortiz Mena of the Inter-American Bank, and with many of those from our Congress and the Executive Branch who have a deep interest in Latin America.

These luncheons, traditional during the World Bank and IMF Annual Meetings, are a reflection of the "unique and special bonds" that join my country and its southern neighbors.

The United States has long supported economic development in Latin America. Our first foreign assistance program in Latin America was initiated in 1942 with the establishment of the Institute of Inter-American Affairs, headed by Mr. Nelson Rockefeller.

We are pleased that our assistance and that of others has complemented the steadily increasing development effort of your countries and that great progress has been made. It is not now appropriate, if it ever was, to view all Latin America as a poor, underdeveloped region. Dynamic growth is visible in most countries.

Some countries of Latin America do continue to need highly concessional assistance, and the United States will continue to provide its share. At the same time, the stronger countries of the region have acquired, along with their growing economies, a growing responsibility for providing assistance themselves to the poorer countries. This does not mean that countries with stronger economies in Latin America no longer need external capital. It does mean that they can soon dispense with the need for highly concessionary assistance.

We see this matter of burden sharing within the hemisphere as the key element in discussions on the next capital replenishment for the Inter-American Development Bank. The United States is actively considering these questions and we look forward to talking specific figures after we have consulted members of our Legislative Branch.

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The central focus of our relationship in the economic sphere is shifting from concessional aid to expansion of trade and of capital flows on a commercial basis. We on the financial side of the U.S. Government fully support this development and the consequent efforts of the hemisphere foreign ministers to re-examine the structure and mechanisms of the Inter-American relationship. The changes which will evolve should better reflect our growing two-way relationship and responsibilities and lead us to mutual understanding and resolution of such issues as expropriations and the impact of the U.S. Countervailing Duty Law.

The general system of preferences for which we hope soon to receive the necessary legislative authority is expected to be particularly valuable in helping your countries diversify your economies. We will also continue to work closely with Latin America in the Multilateral Trade Negotiations to establish an international framework of rules to strengthen the international trading system.

In my remarks this morning I referred to the obstacles to economic growth caused by the rampant inflation, particularly in the price of energy. Many countries have been hard hit, some in Latin America. And all of our countries are faced with major adjustments to cope with the new and difficult situation.

Your countries have great potential for expanding the production of food and energy -- for your benefit and for the benefit of the rest of the world. My country is prepared to help with needed investment and technology in

As we move forward to work on the many problems facing us in the hemisphere, I look forward to our continuing close collaboration.

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FOR IMMEDIATE RELEASE October 2, 1974

TREASURY ANNOUNCES TENTATIVE NEGATIVE DETERMINATION IN ANTIDUMPING INVESTIGATION ON RAPID TRANSIT VEHICLE SEATS FROM BRAZIL

Assistant Secretary of the Treasury David R. Macdonald announced today a tentative negative determination in the investigation of rapid transit vehicle seats from Brazil under the Antidumping Act, 1921, as amended. The merchandise in question consists of seat assemblies designed especially for use in rapid transit system rail cars. The seats are destined for use in the San Francisco Bay Area Rapid Transit System and the Washington Metro System. Notice of this decision will appear in the Federal Register of October 3, 1974.

Comparisons between purchase price and constructed value revealed that purchase price was equal to or higher than the constructed value of such or similar merchandise.

During the period of August 1973 through April 1974, sales of rapid transit vehicle seats were valued at approximately $490,000.

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PRESS BRIEFING
BY
SECRETARY OF THE TREASURY

WILLIAM E. SIMON

PRECEEDING DELIVERY OF HIS ADDRESS

TO THE PLENARY SESSION

OF THE 1974 ANNUAL MEETINGS

OF THE INTERNATIONAL MONETARY FUND

AND

WORLD BANK GROUP

TUESDAY, OCTOBER 1, 1974

SHERATON PARK HOTEL

WASHINGTON, D.C.

SECRETARY SIMON: Ladies and gentlemen, I thought we would get started.

We all have a busy day, and I apologize for getting you up so early this morning.

Unfortunately, this is about the only time in my schedule that I was free. I have met with you this year at a particularly bad time -- with the domestic problems that we have here, and the planning and work that has to be done to attend to them.

Let me just talk about a couple of things broadly and then we will open it up for questions. I would appreciate it if you would speak up because I have an ear that is completely closed up after my recent flight home from Europe; so that it is not that I don't want to respond to questions. Sometimes, I -- honestly cannot hear them.

This year's meeting comes at a time when the International Monetary System and the world economy are faced with very severe problems: Inflation; increase in oil prices; sharp deterioration in the balance-of-payments position of most countries.

This meeting isn't going to produce solutions to these very severe problems, but it offers a very excellent opportunity for progress toward these solutions.

These same issues that I have just mentioned were the central focus of the meetings that we had with the Goup of Five on Saturday afternoon and Sunday morning. Our basic position -- and I think this is pretty widely shared -- is that these progblems can only be dealt with, effectively, by a coordinated approach. Trying to deal with one problem at a time isn't going to work.

On inflation, we think that the major problem remains: Persistent inflationary pressures stemming, in part, perhaps in a large part -- depending on the country -- from the high oil prices.

The major point -- getting back to the fundamentals -- is the excessive fiscal and monetary policies that have been carried on in all of the countries, especially in the United States, for a prolonged period of time, and the inability of all of us to adequately -- for a long enough period -- enforce fiscal and monetary restraint.

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We don't believe, as someone suggested, that there is a danger of a world depression. We don't believe that oil prices have, themselves, been so deflationary that our Government policy should now switch to expansion.

We have to watch for signs of a cumulative slump, be constantly vigilant, and be prepared to act, because the United States is not going to engage in "economic over-kill". But we are convinced that the far greater risk would be, again, premature relaxation of anti-inflationary policies.

The end result of that would be more of the same -- more inflation, and an even greater economic downturn so that new and more severe restraints would have to be applied.

Now, there have been many questions in the past, and I have spent a good deal of time explaining to my counterparts in the fraternity of Finance Ministers, about the fiscal program here in the United States. And I think it is important that it be put in perspective.

When we talk about "fiscal strength" -- gradually implementing fiscal strength -- we mean exactly that. As I said a few seconds ago, we are not going to be involved in economic over-kill. Some have voiced internationally a fear about the United States and its fiscal program -- that it creates the danger of a world-wide recession.

When the actual numbers and the actual restraints have been explained and clarified, I think my counterparts have been assured that this, indeed, has not been the case.

Let's give an illustration:

Last year, our budget deficit was $3-1/2 billion; the last fiscal year. If one adds the off-budget items, -- $3-1/2 billion is on the unified budget basis -- if one adds the off-budget items which have, in our judgment, the same inflationary impact as the actual budget items, the budget deficit would have been $20.4 billion.

Our budget expenditure last year was $268 billion. This year, the budget that was submitted to Congress was $304.5 billion. The President has pledged that he will have a budget, expenditure-wise, of under $300 billion.

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Now, let's say, for example, that figure is $299 billion. That is still a $31 billion increase in federal expenditures on a year-to-year basis: which is in excess of ten percent. It would still have a slight budget deficit on a unified basis and, if one cares to add in, again, the off-budget items, that would, on a forecast basis, add another $12 billion.

So one cannot categorize this as a severe fiscal restraint. We are moving towards -- and carefully towards -- a fiscal restraint. We will have a balanced budget. That is what the President says. That is what we are working towards in 1976.

The second problem on everyone's mind today is the problem of recycling.

Much has been said about the inability of the market place, through the various existing financing channels, including the Euro-Markets, to handle these problems.

So far, the surplus of the oil producers has not been invested in a destabilizing way. As I stressed time and time again, these investors are responsible -- in most cases sophisticated and very conservative investors.

(MORE)

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Indeed, it is in their own self-interest that they have a strong -- and liquid -- international financial system.

OPEC countries, this year, up to date, have accumulated about $30 billion. Now, these funds -- they have placed about 25% of this in the United States. That is the best that we can discern at this point. We have received that amount of funds. This 25% is far below the 60, 70 and 80 percent that some have predicted, which would have caused them to maintain that the United States bear the full burden of recycling.

The bilateral aid that the Arab oil producers have been engaged in the indirect investment; the special Witteveen Fund that was established; the SWAPS mechanism; the Kuwaiti Fund, which was expanded from $600 million to $3.2 billion -- would benefit not only the lesser developed Arab brethren, but all of the nations of the world; the commercial banking system; the Euro market; government-to-government loans -- all of these mechanisms have worked in recycling the Arab oil producers funds. They have functioned well, even in an atmosphere of uncertainty.

Now, that doesn't mean that strains are not going to develop; nor does it mean that we must not be vigilant to the fact that strains will develop.

We must develop mechanisms that can deal with these problems and implement them, indeed, if they are needed.

Basically, the recycling problem is a problem, and it is being handled, at present, quite adequately in the marketplace, and with government cooperation going on all over the world.

The major problem, of course, remains the cause; and that is the high price of oil. We continue to believe that it is to the best interest of the producer, as well as the consumer nations, that the price of oil be lower.

Governments must take concerted action on this point of the area of conservation. The United States still consumes more energy than is required for sound economic growth.

The response, world-wide, has been a decline in demand, in response to the very high oil prices, and I believe that the government must urge the people to do even more. I would expect the President's economic policy message -- which will be delivered next week -- will deal with that area, as well as other areas.

As to the problem of the nations most hard hit, the most seriously affected nations of the world -- there is a genuine financing problem, here; and that problem is going to be taken care of by the Committee on Transfer of Real Resources, which is being established formally, this week.

They are going to direct their attention, first and foremost, to this critical area which would be most seriously affected.

Now, as for the IMF agenda this week, it contains three items of interest:

The new Interim Committee for the International Monetary System will be established.

This is the direct successor to the C-20. We know that it will serve to bring the needed, policy-level attention to bear on the system's operation and evolution; and concentrate on the international monetary reform and its ultimate completion, that obviously was disrupted during the world-wide problem of inflation, and by the oil situation.

Also, the Joint Fund-Bank Ministerial Committee on the Transfer of Real Resources -- that I just referred to as Development Council -- we strongly supported from the outset. The Governors here will formally accept the C-20's recommendations for immediate action as put forward at our final meeting in June at the C-20 including: Guidelines for floating, the oil facility, etc.

We will be pressing others to subscribe to the IMF pledge against current-account restrictions for balance-of-payment purposes, as recommended by the C-20. Only the U.S. and a few others have signed up, to date, and this is probably largely due to inertia; but we think it is important for members to sign and get it into operation.

There are a number of issues concerning policies in the World Bank and development finance that we plan to stress during the course of these meetings -- I will leave that for you to read in my speech that I am giving to you this morning.

With that , I will be delighted to open the session for questions.

MEMBER OF THE PRESS: Mr. Secretary?

SECRETARY SIMON: Yes, sir.

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MEMBER OF THE PRESS: Do you attach any significance to the fact that the Kuwaitis have no delegation here; nor do the OPEC's nor the Arab oil producers?

If there is a significance, will you tell us what it is?

SECRETARY SIMON: Yes sir. Let me explain that to you, because there is a very, very good reason for that.

MEMBER OF THE PRESS: Ramadan?

SECRETARY SIMON: Ramadan is the reason. I spoke to Minister Atiqi and, unfortunately, when it was recognized that the World Bank meetings were scheduled at this date, it was too late to change it. The World Bank and the Fund are studying this issue right now as to future dates, because this is a high, holy, holiday for the Arab nations, and one that they adhere to very strictly.

MEMBER OF THE PRESS: Mr. Secretary, the meeting of the IMF was always at the same time of the year; and always they were here.

SECRETARY SIMON: But Ramadan does not occur at the same time every year. It is according to the moon cycle, not the calendar.

MEMBER OF THE PRESS: Mr. Secretary --

SECRETARY SIMON: Yes, sir.

MEMBER OF THE PRESS: The President and the Secretary of State and you have made some very strong speeches about lowering oil prices recently.

How is the United States going to follow through with that?

SECRETARY SIMON: Well, when we talk about "strong statements" it is a matter of making statements that fully recognize, publicly, for everyone to understand, the impact that these high oil prices are going to have on the world -- if they remain at these levels for three, four, five and six years.

Now, there are several things that the United States can do about this. Indeed, several other countries are fortunate enough to be in the same position.

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(1) As I said a little while ago, we can have conservation in this country to a much greater degree than we have today.

We can reduce the demands and we can have less demand in this area -- less growth in demand, that is than 5 to 6 percent, which has been historical. That should be the aim.

(2) You heard me comment on so often: The supply side of Project Independence.

We are endowed with an abundance of natural resources and technology in this country. We are, today, 85% self-sufficient in energy, in my judgment, if the government would remove the impediments -- of which there are many -- for exploration and development of our coal resources and oil shale, etc.

We can dramatically reduce our dependence on a single area for our oil commodity.

MEMBER OF THE PRESS: Mr. Secretary, you referred to, casually, the Group of Five --

ANOTHER MEMBER OF THE PRESS: In reference to the first part of what you said, "Conservation": Is the government willing to enforce conservation by mandatory -- as opposed to voluntary methods -- especially in regard to the automotive industry?

SECRETARY SIMON: That is being studied right now. As you know, we are in the process of preparing an economic policy message for the President next week.

I am sure, as I said earlier, that that is going to be one of the components of the message. The President will make the decision as to whether there should be mandatory elements of that program, or not.

MEMBER OF THE PRESS: You referred casually to the Group-of-Five meeting.

Does this mean the beginning of an "Organization of Petroleum Importing Countries"?

SECRETARY SIMON: I cannot hear you. I am sorry.

MEMBER OF THE PRESS: You referred casually to the casual meeting of the Group of Five.

Does this mean the beginning of an "Organization of the Petroleum Importing Countries"?

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SECRETARY SIMON: Well, I don't relate the two, really. Let me tell you that the Group of Five has been meeting for the past two years, approximately. It has never met on a scheduled basis, and there are no plans for it to meet in the future on a scheduled basis, although we have found it very useful for the FIVE to meet with the Ministers of Finance -- for the five nations to get together and discuss the major problems of the day.

As I say, we have found that to be very useful.

As far as the consuming nations are concerned, we started that with the February conference of the consuming nations -- the major consumers in the world working toward the agreement that is going to be signed at the end of this month.

Yes, sir.

MEMBER OF THE PRESS: Let me follow up on that. Is there a concerted effort now being made by the United States to organize the consuming nations into a group that could resist future embargo, or other tactics, by the OPEC nations?

SECRETARY SIMON: When you say "resist", I would prefer to use the term "protect against any future potential cut-off in our supplies, that we experienced starting last October."

There, again, this has already been done. We have an import sharing program that will be signed, toward the end of October, by all nations. It will direct itself exactly at that -- cut-offs; be they individual cut-offs to other nations, or collective cut-off to a group of nations -- we will immediately put in place this plan of sharing, which also involves conservation on the part of individual nations.

MEMBER OF THE PRESS: The British Chancellor of the Exchequer has made clear that, in his view, a world recession is an immediate and tangible danger, and that the existing IMF recycling facilities are not sufficient. In the course of your talks with him, have you convinced him of the error of his ways?

SECRETARY SIMON: I did not say -- and let us make that perfectly clear -- I did not say that that was not something that could happen. We must, as I said in my opening remarks, be very vigilant to the fact of excess and slack in the worldwide economies.

As far as special facilities are concerned -- additional special facilities -- in the Fund, we supported the Witteveen proposal, and the special oil facility that was established last month. We feel that it was needed, and it served a very useful purpose, as well.

Now, if additional mechanisms are needed to further help in the recycling, we are not going to oppose additional mechanisms. However, we think that this should be -- as I say in my speech this morning -- carefully studied with all of the specifics drawn up. Let us make sure, before we implement a program like this, that it is needed; and what its impact is going to be on the operations of the IMF.

MEMBER OF THE PRESS: Mr. Secretary: You mentioned conservation and Project Independence.

Are there other such (programs) and, if so, if everything should not work right, how long would it be before you see some dampening of the oil prices?

SECRETARY SIMON: Well, we talked about work on the demand side and the supply side. There is a major uncertainty involved in that question; and that is: what the world-wide production levels are.

We had a surplus of oil, three months ago, of approximately 3 million barrels a day. Reduction in demand -- below the 1973 level -- created this surplus, as I said, in response to the price. Well, the producer nations cut back their oil production until the surplus was reduced to about half a million barrels a day. Today, it is somewhere in the area of a million barrels a day. So it all depends on the supply, really. You have the tanks full; all over the world, right now. If the surplus continues, the choice is clear. Obviously, one of two things can happen: Either the price falls or the production is cut.

MEMBER OF THE PRESS: What I am asking is: What is your leverage on the oil producers?

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SECRETARY SIMON: Well the leverage that we have in this country is our abundance of natural resources -- working on the supply side -- which, obviously, takes time -- three to five years; and the demand side, what we can do immediately in the reduction of demand.

Other than that, we have no leverage, per se.

MEMBER OF THE PRESS: To follow up this question, Mr. Secretary, at the present time, the oil wells in the United States are pumped eight hours a day, or 24 hours a day?

SECRETARY SIMON: The states regulate the amount of oil that a well can take out.

We used to have what they called "pro-rationing" in this country, which actually held it down, because we were "surplus" in the amount of oil. They have what they call a "maximum efficiency rate". Since 1971, they have been operating at 100% efficiency rate in their production.

As I say, this is regulated by the states.

There have been some people in charge where there are many wells that are kept in waiting for higher price, and are not producing as much as they should. There is a very large judgmental issue on what kind of damage one does if he produces a well more rapidly than it should, safely, be produced.

It gives great benefits in the short run, and it cuts down on the production after a very short period of time, as the State of Louisiana found out after they increased production rather precipitously in 1967; at the last cut-off.

MEMBER OF THE PRESS: With the capital flows slowing down, your position involved (of involvement) would be changed?

SECRETARY SIMON: Will the capital ....?

MEMBER OF THE PRESS: I mean, so much liquidity -- all these monies -- the oil countries, the OPEC countries keep eyes now, I mean, on your position on gold; on mobile dates and other kinds: The reserves of gold will be changed.

SECRETARY SIMON: Well, I must admit I am not sure I quite understood your question; but our position on gold is --

MEMBER OF THE PRESS: It is my English.

SECRETARY SIMON: Oh, that's all right. You should hear my German!

Our position on gold, really, has not changed. We wish to see it removed from the center of the monetary system; and replaced by the SDR. We have a law in the United States which requires -- which allows the United States citizens to own gold at this end of this year, unless we make recommendations -- if we find it impelling, for inflationary reasons, one way or another -- that that should not be done.

We are watching that very closely as the end of the year approaches; but I would say our position on gold, basically -- which is well known -- is still unchanged. We still believe that the International Monetary Fund should be allowed to sell its gold in the market place, and that resources created as a result of that will be useful in lending to various countries.

MEMBER OF THE PRESS: Mr. Secretary, a moment ago you said that, on the demand side, we can do that immediately.

What are the means or methods by which we can achieve an immediate or quick reduction in demand?

SECRETARY SIMON: I am not going to pre-judge what the President will decide, as far as conservation methods that will be recommended to him.

I just looked back at the suggestions that have been made last winter, and I think, going from "lighting" standards to the usual methods -- all of those things could be immediately implemented, just as we have done in the last year.

MEMBER OF THE PRESS: Mr. Secretary, the developing countries have asked repeatedly that there be some link between development assistance, and the SDR's, and there is an implication that they may use this link as a deciding point whether or not to approve monetary reform.

What is the position of the United States on this now?

SECRETARY SIMON: Well, we promised at the C-20 meeting in June, very seriously, that we would review our position on the SDR aid link. That study is going on right now. We are doing it with a completely open mind. While we oppose the direct SDR link, I think that intelligent people can perhaps find other ways to skin the same cat. We are looking at that right now, and we will have our report -- hopefully -- by winter.

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MEMBER OF THE PRESS: Mr. Secretary, will the United States begin to sell its own holdings of gold?

SECRETARY SIMON: As I said, the Treasury Department would feel free to sell gold to meet domestic demand. Whether or not we recommend the sale of gold to the President, would certainly depend on many conditions: Inflation; balance-of-payments; the world financial system; as well as the domestic, because there are many who fear that it could create further disintermediation from our thrift institutions which have suffered already, thereby creating a great burden on our housing industry. So we have to take all of these things into consideration.

I would not pre-judge that at all.

MEMBER OF THE PRESS: Mr. Secretary, Canada has plenty of oil.

Does the United States have any plans to persuade the Canadians through trade -- I won't call it coercion -- but through trade measures, to lower the price of its oil to the United States?

SECRETARY SIMON: We have had conversations with Canada and will continue to. I met with Minister McDonald in Detroit at the World Energy Conference two weeks ago. We have found them to be extremely cooperative in helping us.

You talk about the high price, as measured by their export price, which equates the world price, and say, "That is unfair". But then, let's make sure that we take a look at the whole story before we condemn people for actions. Canada exports to the United States -- to our midwest states. It has always supplied the upper tier of the United States with oil.

They import in the East. They have no way to deliver from West to East, although, now, they are starting to build the Sarnia pipeline. They are importing the high priced Venezuelan oil, and Arabian oil in the East.

They are exporting what could be cheaper oil to the midwest in almost equal amounts. So they felt that it was fair -- indeed, if we look one step further -- if we were exporting from California to the Far East, and importing from the mideast into New York, I rather believe the pressures would be very strong here in this country to make sure that the prices were exactly equal with the balance of payments cost, as well.

So they have agreed -- Canada -- to work very closely with us while they are building the Sarnia pipeline, and are intending to deliver the oil from West to East, in Canada; but they will do it with great care, recognizing that we need this critical supply in the midwest. And they will attempt -- so far as possible -- to coordinate these policies with our new supplies. That would be brought out here.

MEMBER OF THE PRESS: Mr. Secretary, McNamara's speech seems to imply -- or the Five Year Program of the World Bank seems to imply -- that the Bank needs a capital increase -- increase in subscription capital.

What is the position of the United States on that?

SECRETARY SIMON: We think the times are a little bit too uncertain, at the present, to be making any judgments as to Five Year Plans at this time.

We are having active discussions with our good friends at the World Bank with whom we meet constantly on these issues. So we have no position on agreeing or disagreeing with the Five Year Plan. We just think that it requires a great deal more conversation.

MEMBER OF THE PRESS: Mr. Secretary --

SECRETARY SIMON: Yes, sir.

MEMBER OF THE PRESS: What comment do you have on the suggestion that it was France and West Germany, together, that brought about a postponement of the proposed discussion by the IMF before the end of this month on IMF gold sales by the IMF?

SECRETARY SIMON: Again, would you repeat your question?

MEMBER OF THE PRESS: What is your comment on the report that it was the combination of West Germany and France that forced a postponement early this month of a discussion of an IMF staff plan recommending gold sales?

SECRETARY SIMON: I am not familiar with that report. Nor am I familiar with the postponement mentioned.

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MEMBER OF THE PRESS: There was such a staff memorandum prepared by the IMF staff. It was supposed to be discussed at this meeting. There was such a memorandum prepared by the staff of the IMF; and this was the date for this particular discussion. This is a fact.

SECRETARY SIMON: It never reached our level in a formal way. No.

MEMBER OF THE PRESS: Mr. Secretary, to go back to conservation, you had earlier said that you work on the demand side, but you then inserted -- into your repetition of that -- that we could restrain the growth of demand.

Now, in saying that we could "restrain the growth of demand" do you mean to rule out the possibility of an absolute cut in demand?

(MORE)

You also mentioned that we are dependent, in the United States, on foreign sources of energy for only 50% of our total supplies.

Could we not exert much more pressure on the exporting countries, by a more serious reduction?

SECRETARY SIMON: Yes. That is what I was trying to say. I guess I said it poorly.

I believe that we can have a large reduction in our demand for energy in this country -- energy in all forms. Yes, indeed -- if I understand your question correctly.

MEMBER OF THE PRESS: Mr. Secretary, what is the relationship of this cut in energy consumption to a trilateral commission -- a super governmental agency, which is headed up by David Rockefeller? And what is the relationship of that body to the Committee of Five?

SECRETARY SIMON: I don't believe -- well, there is no relation as far as the Group of Five is concerned.

As far as the "relation" is concerned -- to this commission -- we meet with these gentlemen when they have reports, and they are extremely helpful in many of our policy deliberations. But there is no formal connection at all.

MEMBER OF THE PRESS: Could I ask you, Mr. Secretary, do you think that the French idea of putting a ceiling on the price of imported oil could be adopted by other countries?

SECRETARY SIMON: I believe that the French put a ceiling on the amount of imported oil.

MEMBER OF THE PRESS: No! No! Not only the amount -- the price it would cost. It would not go further, or, at least, they have said so --

SECRETARY SIMON: No! I think -- if you will look at it -- that they put an overall ceiling on the amount of oil to come in. It was not related purely to price. They may have made some comments which I did not see.

MEMBER OF THE PRESS: I am surprised. I thought Mr. Fourcade would have explained it, as he had done in France, in the States: that the ceiling implies that it would not go further up than 51 billion francs and if the price --

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SECRETARY SIMON: Well, see here! You may be confusing two issues.

They say, "All right. If we bring in X amount," that means, "at this price level, we are not going to spend more than Y."

That is the point! It has nothing to do with saying, "We are not going to accept oil at anything above $11.00 a barrel."

It says: "We are not going to spend any more than -- whatever it is"-- and I see everyone nodding their heads.

MEMBER OF THE PRESS: Yes. Sure! That is what I am trying to say.

Do you think you would approve, to say that the United States would not spend more than a certain sum of dollars, in certain cases?

SECRETARY SIMON: Well, we have approached it differently, in looking at the demand "elasticity", as you look at various conservation measures. We can make the studied judgments as to how much we would save, per conservation measure. That is always the way we have approached conservation.

MR. PLUM: Just one more question, please. We have time for one more question.

MEMBER OF THE PRESS: Mr. Secretary, the French have cut their supplies of imported oil.

The French have cut their imports.

The Germans have cut their imports.

The United States is considering ways to reduce imports.

SECRETARY SIMON: Further!

MEMBER OF THE PRESS: Further reduce imports.

Would it not be the case that if all oil-importing nations reduce imports, the oil exporters would simply raise prices again and again, maintaining their level of profit, despite the fact that they are shipping less oil?

And, if so, how would this solve the monetary problem?

SECRETARY SIMON: I am sorry. I recognize that that is a possibility, but one must consider possibilities and probabilities.

I don't think that that is a "probability". No!

MEMBER OF THE PRESS: Mr. Secretary, what do you think of Senator Jackson's proposal that the United States should take the lead in lowering oil prices by reducing the domestic price?

SECRETARY SIMON: I have not had an opportunity -- because these last two days I have been involved in "Bank" and "Fund" meetings -- to see Senator Jackson's full proposal.

I will make comments on it only after I have seen it.

MEMBER OF THE PRESS: Well, on the other question:

Could the United States take the lead in lowering oil prices -- aside from what Senator Jackson proposed?

SECRETARY SIMON: When you say "take the lead", I believe we have taken the lead as far as the consumers conference -- to work together -- all of the consuming nations -- on the conservation together, and on the supply side, and the import-sharing.

I think that this is a very good first step.

Thank you, gentlemen.

MEMBER OF THE PRESS: Thank you.

(Whereupon, at 8:50 o'clock, a.m., the Press Briefing was concluded.)

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Department of the TREASURY
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NEWS

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FOR RELEASE AT 10:00 A.M.

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON ACTIVITIES OF REGULATORY
AGENCIES RELATING TO SMALL BUSINESS
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C.
OCTOBER 2, 1974

Mr. Chairman and Members of the Subcommittee:

I welcome this opportunity to appear before you today. To clarify a number of important matters relating not only to the activities of the former Federal Energy Office but also to my role as its Administrator.

First, Mr. Chairman, I want to state my great dismay at recently published accounts regarding my invitation to appear before your Subcommittee. It has been publicly stated not only that I have been "reluctant" to appear, but have agreed to do so only under "threat" of subpoena.

I want to set the record straight on this issue. On September 16, 1974, and again on September 19th, you requested me to produce documents relating to the activities which you have been investigating. We immediately conducted an extensive search for the relevant documents, and they were promptly made available to you.

Thereafter, you requested that I personally appear before the Committee on September 27th. Mr. Fred Webber, the Assistant Secretary of the Treasury in charge of Legislative Affairs, informed you that this particular date was not possible for me, due to the Economic Summit Conference and previously scheduled meetings with representatives of several foreign governments here in Washington for the International Monetary Fund and World Bank Meetings. He did, however, expressly state that I would be available any time this week, at your pleasure. In addition, Mr. Webber noted that Mr. Gerald Parsky, an Assistant Secretary of the Treasury and my former Assistant at the Federal Energy Office, is especially familiar with the matters which you are reviewing, and that he would be available and prepared to testify on September 27, 1974 if you so desired.

On Saturday, September 21, 1974, Mr. Parsky himself reiterated this to Mr. William Demarest, Counsel to this Committee. Mr. Demarest thanked Mr. Parsky for our willingness to cooperate. He added that he did not believe our testimony would be necessary, but would let us know.

While my office was awaiting word as to whether and when you might like me to appear, it was reported in the press that I had "reluctantly" agreed to appear, under "threat"of subpoena.

At no time was it suggested or even implied that I woul be unavailable or unwilling to appear. Let me say as plainl as I know how: Nobody has to subpoena Bill Simon....ever... to appear before any Congressional Committee.

A look at the record will bear this out. I served as Deputy Secretary of the Treasury Department from January 197 until my confirmation as Secretary on May 8, 1974. In addition, from December 6, 1973, until May 8, 1974, I was Administrator of the Federal Energy Office, now the Federal Energy Administration.

In the 22 months since I joined the Government, I have personally appeared here on Capital Hill at the specific request of Members, Committees and Subcommittees of both Houses of Congress, to give formal testimony or answer speci questions, no fewer than 213 times: 68 times as Deputy Secretary, 102 times as Administrator of FEO, and 43 times as Secretary of the Treasury.

This has often involved two or three appearances a day, and several evening sessions. In light of this record, I feel any implication, by anyone, that I am or ever have been reluctant to appear before the Congress on any matter with which I have been involved, is totally uncalled for and shoul be corrected.

In addition, I have received reports from my staff of the informal comments which you staff has given to the press. I deeply resent any statements or implications th cast reflections upon the integrity, ability, industry or good faith of the staff who have served me in each of the offices which I have held.

Now, turning to the substance of the Subcommittee's inquiry, I would like to make the following points this morning.

I will be glad to answer any questions you may have:

- --The so-called "double dip" involves the possible duplicated recovery of some costs by some refiners who were directed under the allocation program to sell crude oil to other refiners. The possibility of this result was never focused upon by me. Only within the past few weeks have I ever even heard the term "double dip," and the interpretation of the FEO regulations which gives rise to it was explained to me only very recently.

- --FEA has determined that recent reports on the impact of these regulations have been greatly exaggerated. Although I understand that approximately $40 million now appear to have been passed through to consumers and the so-called "banked costs" were even larger. FEA has determined that the "double-dip" interpretation of the regulations is not justified and is taking remedial action.

- --With respect to the original points of inquiry by this Subcommittee, the subjects of rises in the prices of propane and permitted increases in the price of domestic crude oil, each occurred under predecessor agencies to the FEO. In particular, the dramatic rise in propane prices occurred as a result of the price rules of the Cost of Living Council, as to which the FEO took appropriate corrective action as the situation developed. I am submitting for the record a brief analysis prepared by my staff on this point. The decision to increase the price of controlled domestic crude oil from $4.25 per barrel to $5.25 per barrel was also, of course, made by the Cost of Living Council.

THE "DOUBLE DIP"

There has been substantial testimony as to precisely how the "double dip" effect occurs. While I see no need to repeat it here, I am submitting for the record a detailed analysis prepared by my staff on this point, and will discuss it briefly in a moment. I think it is more important first to set forth the background as to how the allocation regulations were developed by FEA.

The outlines of our critical energy problem began to emerge during the Summer of 1973. Some refiners were increasingly unable to obtain crude oil, and the resulting distortions had rippled throughout the energy industry. This problem was greatly exacerbated in late October, with the imposition of the Arab oil embargo.

Various allocation mechanisms to relieve this situation were developed within the Administration, initially by Governor John Love's Energy Policy Office. On November 27, 1973, the Emergency Petroleum Allocation Act of 1973 was signed into law. This Act required that mandatory allocation regulations be published within fiftee days, and promulgated in final form within fifteen days thereafter. Final regulations setting forth a mandatory allocation program were therefore due on December 27, 1973.

Extraordinary pressures surrounded the creation of FEO and the development of the allocation regulations. Not only were we responsible for dealing with the major substan issue confronting the nation, but we also had to begin by setting up an entirely new agency. Thus, during December we had to borrow hundreds of Federal employees, and open ten regional offices and scores of State offices. Thirty-three Federal agencies detailed employees to the FEO, and we were physically spread out in ten different offices throughout Washington.

I would emphasize that during the initial organizatio phase we pulled together a team of experienced people to de specifically with allocation regulations. Because of the magnitude of our responsibility, the complexity of the developing regulations and the extraordinary demands upon m time, this team developed FEO regulations under the authori which I delegated to my Deputy Administrator, John Sawhill, and later to our General Counsel, William Walker, subject to my overall policy direction.

There appears in the record severely derogatory comments by members of this committee seeking to assign blame for the chaotic situation under which we were all laboring at the FEO. Such statements reveal little understanding of the magnitude of the task imposed upon us by the emergency Petroleum Allocation Act of 1973, and the unbelievable timetables which we were called upon to meet as a brand new agency whose personnel were derived from so many different and diverse sources. Under all of the circumstances, I personally feel that the FEO'S performance in those weeks was remarkable, and I am extremely proud of our accomplishments.

In any event, in the context of your present inquiries one factor is of paramount importance in reviewing those hectic days: the conflict between the objectives of the COLC price regulations and the thrust of the developing allocation regulations. Our primary goal was to survive the embargo, with minimal permanent damage to the economy.

The COLC price regulations allowed sellers to pass on to their customers actual out-of-pocket cost increases. However, the allocation program required refiners to sell crude oil to other refiners, who were in many cases their competitors. In so doing, it forced the refiner-sellers to give up their crude oil at a sacrifice, even under COLC pass-through rules. The seller-refiner was required to lose the profit margin that he would have made if he had, instead, refined the crude oil himself.

As a result, it would have been greatly to the advantage of a refiner with overseas sources of crude oil not to import such crude, but instead to use the available surplus foreign refining capacity and refine his crude overseas. He would then be able either to sell the resulting products abroad (indeed, in some cases he would be required to do this by the laws of the nation in which the refinery was located), or import the foreign refined products into the United States. In either event, the U.S. would lose imports of crude, and our refining capacity would remain idle at a time when its use was critically needed.

In short, we foresaw very serious disincentives to the importation of crude oil if COLC price rules and the mandatory allocation regulations were not properly combined.

The issue of whether and how to compensate the seller refinery for this loss of margin generated very substantial debate within FEO. In early December, this came to my attention for decision. In view of the embargo and the absolute urgency that adequate crude be available for all of our refinery capacity, I decided that the projected disincentives to imports must not be allowed and, therefore, directly approved two mechanisms, which have become identified as the "6%" and "84 cent" allowances.

What has been referred to by some witnesses as a controversy over "double dip", I am informed, may actually have been the controversy over the alleged double recovery argued by some to have been presented by the 6% and 84 cent provisions.

It is obvious from the testimony before this committee that there was and is considerable confusion as to the meaning of these provisions. This confusion appears to have been resolved by the positions taken by FEA yesterday that it is a violation of FEA pricing regulations for a refiner to pass through to its customers the so-called "double dip". I understand that the FEA will disallow banked costs that could otherwise be taken under a double recovery interpretation.

ROBERT BOWEN

The second matter I wish to discuss with you is the participation of Mr. Robert Bowen in FEO's activities. Mr. Bowen was originally employed by the Treasury Department in the summer of 1973 after he had been selected by the Civil Service Commission to participate in the President's Executive Interchange Program. I was aware that under this program Bowen retained ties with his previous employer, the Phillips Petroleum Company, and that there was a potential for conflict of interest problems. A memorandum was prepared by Dr. Willia Johnson, my energy adviser at Treasury and Mr. Bowen's supervis which outlined in detail the scope and limitations of Mr. Bowen prospective activities. The General Counsel of the Treasury provided me with a legal opinion which concluded that, in view of the proposed limitations on Mr. Bowen's duties, he would not be acting in violation of the statutory conflict of interest prohibitions. He further concluded that I need not consider whether or not to grant a waiver under paragraph (B) of 18 USC 208. Lawyers from the General Counsel's office personally explained to Mr. Bowen and his supervisor, Dr. Johnson, the relevant conflict of interests considerations. It was only based on these assurances that Mr. Bowen was hired.

On April 8, 1974, FEO's General Counsel, Mr. Walker, advised me that the role of Dr. Johnson's office had materiall changed at FEO, and raised the question of whether Mr. Bowen's current activities might more closely approach proscribed conduct. Dr. Johnson delivered to me a memorandum on April 17, 1974, in which he concluded that Mr. Bowen's duties were "generally consistent with /Treasury General Counsel's/ memora of June 13, 1973".

However, based on the advice of the Treasury's General Counsel I did not make the waiver determination under the law I mentioned earlier.

I might add that through personal association with Mr. Bowen I came to have an extremely high regard for his knowledge of the detailed working of the energy industry. We relied upon him for factual information and for analysis of such data.

I would like to emphasize the great need that my staff and I had for extremely technical opinions on a variety of subjects. We simply could not have afforded to wait until we had been able to bring in more people with the needed expertise, without violating not only the deadlines mandated by the Congress but our obligation to the nation to take steps to resolve the energy shortages of last winter and spring. We had to draw upon every resource of talent at our disposal.

I understand, Mr. Chairman, that some question has been raised before this committee as to whether the recent disclosure of the possible "double dip" effect of FEO regulations may have caused a reconsideration by the Department of Justice of its previous position that no prosecutable offense had been disclosed. While Mr. Petersen will of course be able to comment more fully on this point, I might state that we have spoken to the Department of Justice and been told that this is not accurate. After their review of the facts more recently developed, I am informed that the Department has determined that no further investigation seems necessary or appropriate at this time.

PROPANE AND OIL PRICING

Finally, let me say a few brief words about propane prices. Contrary to the impressions that appear to be held by some members of this committee, the only actions taken by the FEO during and after my tenure as its administrator were directed not towards increasing propane prices, but towards ameliorating the severe price increases that had resulted from the earlier policies and rules of predecessor agencies. The FEO inherited from the COLC propane regulations that resulted in the price increases. We amended these regulations on February 1, 1974, so as to bring propane prices down.

The full story of propane price regulations is somewhat technical. With your permission, I would like to submit a short statement for the record describing in more detail the points I have just made, and I will be happy to answer any of your questions on this issue.

It seems to have been an assumption of this committee that FEO was somehow a tool of big oil. This is not the case. FEO did not favor the interests of big business over those of small enterprises or the American consumer. The President and the Congress expected FEO to act in the national interest, and we did so, full-time, over an extended period, in a crisis atmosphere. I am proud of FEO, and I am proud of my participation in it.

oOo

APPENDIX A

TREASURY DEPARTMENT STAFF ANALYSIS

"DOUBLE DIP" REGULATIONS

On August 17, 1973, the Cost of Living Council promulgated Subpart L - Petroleum and Petroleum Products, of the Final Phase IV Regulations pursuant to the Economic Stabilization Act. These regulations applied to all sales and purchases of crude petroleum. A two-tiered price system was adopted, providing for a ceiling on domestic crude petroleum prices but allowing new crude and an equivalent amount of old crude to be sold at prices above the ceiling. No price controls were imposed upon imported crude petroleum and therefore even after the imposition of price controls on domestic crude petroleum prices for imported crude continued to escalate.

The Cost of Living Council rules continued to be administered by the Cost of Living Council through the fall of 1973. On November 27, 1973, the Emergency Petroleum Allocation Act of 1973 (Pub. L. 93-159) was enacted. This Act required allocation and price regulations to cover crude oil, residual fuel oil, and refined petroleum products to be promulgated within 15 days of the date of enactment (December 27, 1973).

In order to faciliate the administration of this responsibility the President on December 4, 1973, by Executive Order No. 11748 established in the Executive Office of the President, the Federal Energy Office. The Administrator of the FEO was delegated the authority vested in the President pursuant to the Emergency Petroleum Allocation Act. The Cost of Living Council was already administering price regulations in the petroleum industry pursuant to the Economic Stabilization Act of 1970, as amended, and the FEO immediately began to work around the clock to develop comprehensive allocation regulations.

On December 13, draft allocation regulations were published.

A later draft of these regulations was published on December 27th, with an effective date of January 11, 1974 and an implementation date of January 15, 1974.

Final revisions to the allocation regulations were published, to be effective immediately, on January 15, 1974. The regulations as finally promulgated were necessarily complex and voluminous. The individuals involved in drafting the regulations, many of whom were detailed from other Federal agencies, assisted in the drafting of one or perhaps two of the sections at most. There were administrative procedures and allocation regulations for crude oil, propane, butane, motor gasoline, aviation fuels, middle distillates, residual fuel oil, petrochemical feedstocks, and other refined petroleum products which had to be drafted. In addition, there were to be price rules for each of these products. Further, within each category of allocated product, supplier/purchaser

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relationships had to be established, methods of allocation had to be determined, levels of distribution had to be isolated and defined, and reporting requirements had to be prepared.

Given the fact that all these tasks had to be performed and implemented in the form of Federal regulations in literally a matter of weeks, there was bound to be some overlap and some contradictions between the sections.

The COLC price regulations allowed sellers to pass on to their customers actual out-of-pocket cost increases. However, the allocation program was to require refiners to sell crude oil to other refiners, who were in many cases their competitors. In so doing, it forced the refiner-sellers to give up their crude oil at a sacrifice, even under COLC pass-through rules. The seller-refiner would thus lose the profit margin that he would have made if he had, instead, refined the crude oil himself.

On the one hand, representatives of the COLC and advocates of the then prevailing price regulations argued that only actual out-of-pocket costs should be allowed to be passed on. On the other hand, FEO energy and trade specialists predicted severe reductions in imports unless some such exception to the otherwise applicable price controls were made.

In early December, it was decided to eliminate potential disincentives to imports by adopting two mechanisms, the "6%" and "84¢" mechanisms.

Essentially, these mechanisms were to work as follows: to compensate the selling refiner for the costs of the actual allocation sale, a 6% transfer charge to the buying refiner was authorized. This represented the standard rate charged for such services throughout the industry.

In addition, it was decided that it would be appropriate to compensate the selling refinery for the lost margin opportunit It was determined that a fair estimate of such a margin would be 2 cents per gallon, or 84 cents per barrel.

A refinery selling crude oil under the mandatory allocation program was therefore to be allowed to charge the buyer 6% of the sale price, and to add 84 cents per barrel to the price of his products.

There was substantial controversy concerning these provisions, with some FEO staff arguing that these provisions represent double recovery, and that the COLC regulations provided all appropriate relief.

Notwithstanding this decision regarding the 6% and 84 cent recovery, in the hectic preparation of the actual documents to be sent to the <u>Federal Register</u> for publication during that period some errors were made. First, in the regulations published on December 13, the 84 cent provision was not included. Thereafter, in the regulations published on January 2, 1974, the 84 cent provision was included but the 6% transfer charge was, in effect, both given and then taken away.

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It was noted at the time by some personnel that these errors had the accidential effect of confirming in fact the adverse effects on imports which had been foreseen. When the regulations were published in draft form without the compensatory measures, there was immediate diversion of crude oil already in transit away from the U.S. to other destinations.

Final regulations were to have been published by December 27th, but it was recognized on that date that there were technical deficiencies in the regulations being sent to the Federal Register. Accordingly, the implementation date set for those regulations was January 15, and FEO staff continued in the intervening two weeks to review and tighten up their form. Staffs worked round the clock to complete technical revisions and correct the errors made in previous regulations.

In the effort to tighten the regulations and implement the policy decisions previously made, three elements of compensation were in fact included in the final regulations published on January 15. The six percent transfer charge and the 84 cent fee were included, but in addition a provision from an earlier draft regulation to provide increases in the costs which a seller could pass through to his own product customer appeared as well. This last provision appeared as Subsection 212.88(e), and gave rise to the interpretation of the regulations which has become known as the "double dip."

With respect to Subsection 212.88(e), it should be noted that it was not drafted during the period January 10-15, but had in fact been drafted in substantially the same form as early as November, and had appeared in a draft dated December 8, 1973.

In addition, there would appear to be nothing either improper or inappropriate about the approach it represents. It would appear to have originally been directed towards the problem of assuring full recovery of costs to a selling refiner. The otherwise applicable price restrictions as they were drafted in November would have authorized a seller to recover only an amount equal to the weighted average cost of the oil sold. The replacement cost of such oil at the time of the sale would, however, predictably have been very much greater than this average cost. The original intent of the language which became Subsection 212.88(e) appears to have been to have allowed full recovery to the seller of the actual market cost of the oil required to replace oil he had been directed to sell. This is an alternative method of compensation for the seller which, under different circumstances and in a different context, might indeed have been adopted.

In fact, however, when considered along with the other provisions of the January 15 regulations, it represents a compensation in excess of what had been intended by the draftsmen. Indeed, it was susceptible to an interpretation which has become known as the "double dip" interpretation. This interpretation would in effect allow recovery of some of the cost elements twice: first, the seller would be allowed to charge his customers the increased costs of a newly acquired barrel of oil over the costs of such oil in the 1973 base period. Then, when he was required to sell to another refiner, he would be able to sell under the allocation regulations the same barrel upon which such cost increases had already been calculated and authorized to be passed through.

It is perhaps illustrative of the confusion surrounding this provision that even at this late date there may still be some confusion as to the scope of this impact.

It would seem that the "double dip" effect provides for duplicated recovery not of the entire price at which an allocated barrel was sold (the weighted average cost), but only of the difference between such weighted average cost and the 1973 base price. Recently suggested estimates of a "double dip" effect that would produce duplicated recovery of the entire sale price, i.e., a double recovery of $23 to $24 per barrel, do not appear to be in accord with even the most generous interpretation placed upon Subsection 212.88(e) by those few companies who appear to have taken advantage of it.

A review of the files indicates clearly that those advisers who had argued that compensation of some sort must be afforded to a selling refinery did not appreciate the "double dip" effect for weeks after publication of the regulations. Specifically, after publication of the regulations Dr. William Johnson noted in internal memoranda the consequences of the regulations as published. He nowhere refers to the possibility of a "double dip" recovery. Similarly, Dr. Johnson's deputy, Mr. Philip Essley, prepared an extensive memorandum on the deficiencies of the regulations, which also failed to include consideration of the interpretation which has given rise to the "double dip."

During January and February the staff of the Federal Trade Commission was, pursuant to the Emergency Allocation Act, engaged in an exhaustive review of the mandatory petroleum allocation program, and all of the activities of the FEO. This study was submitted to the President and the Congress on March 15, 1974. It recognizes all of the hectic circumstances of those days, but while it discusses the allocation program in great detail, it again does not refer to the "double dip" recovery.

On the other hand, on January 16, 1974, the FEO General Counsel's office prepared an internal memorandum containing an exhaustive review of all of the elements of the new regulations. This memo noted three possible interpretations of Section 212.88(e), and while none of these interpretations appear to be precisely that subsequently developed by witnesses before the Committee, at least the potentiality for some double recovery was noted.

By the same token, on January 22, 1974, the Internal Revenue Service raised 88 specific questions concerning the regulations in a memorandum to our Executive Secretariat. One of these questions refers to Subparagraphs 212.88(d) and (e), and points out that "these paragraphs provide for unwarranted profits and place the burden of those profits on buyers not involved in the allocation transaction." While on its face this language may seem ambiguous, the thrust is that some "unwarranted profits" may be passed on to the seller's customers. While this could be a reference to the 84 cent charge, it could also be a reference to the "double dip" cost pass-through.

No other contemporaneous reference to the "double dip" has been discovered in our files.

The FEO audit staff are reported to have received several telephone inquiries from oil companies seeking clarification of Subsection 212.88(e) as early as late January. There was substantial confusion among the staff as to the appropriate response, and a staff decision was made to request that all such telephone inquiries be submitted in writing, so that a formal position could be developed for future reference.

On March 22, such a formal inquiry was submitted by the Mobil Oil Corporation. It was referred by the Executive Secretariat to the General Counsel's office for action, and the cover memorandum accompanying this document indicates that neither the Administrator nor the Deputy Administrator had seen it.

In the weeks that followed, there were differing informal interpretations as to how the two sections actually fit together. The Cost of Living Council personnel suffered from a lack of understanding as to the mechanics of the allocation program, while the same could be said of the FEO personnel in regard to the Cost of Living Council pricing rules. Major oil companies were faced with day to day decisions in regard to petroleum product pricing and compliance with FEO regulations and therefore had many questions in regard to the provisions in question.

The FEO had hundreds of emergencies in the first sixty days following the promulgation of the final price and allocation rules. As a first priority, FEO was concerned with allocating needed products to ultimate consumers whether in the form of aviation fuel for the airlines, gasoline for the motoring public, residual oil for utilities, or heating oil for homes. The FEO made a conscious decision to attempt to get the right product to the right place soon enough to avoid serious emergencies. The prices at which products were allocated were likewise important considerations, but such matters lacked the same necessity for instantaneous solutions that were required in allocating the product itself. The pricing mechanisms were so designed that any under recovery by a company could subsequently be made up in the market at a later date, and likewise over recoveries by companies, whether detected internally by the company or by external audit, could be returned to the market so that the consumer could be made whole as the reporting mechanisms came in to play tracking the various transactions which were part of the allocation program.

Despite the less than immediate emergency created by the pricing provisions which were causing the problems associated with the double dip, the FEO did issue proposed regulations on March 6, 1973 (less than sixty days after the promulgation of the regulations which caused the confusion in regard to the "double dip"). Those proposed regulations sought comment in regard to the "84 cents per barrel pass through on the costs of products sold by a refiner-seller to allow recoupment of an approximation of the profit which would have been made by refining each barrel of crude oil to be sold under the allocation program." Although the preceding language is not a formal interpretation of the Section 212.88 price provision, it clearly indicates that only the 84 cents was intended as compensation for allocated barrels of crude oil and not the double dip interpretation of Section 212.88. Final regulations were promulgated on May 14, 1974, eliminating Section 212.88 and any further possibility of a double dip.

Finally, on October 1, 1974, in response to an inquiry from the Mobil Oil Corporation, the FEA formally announced their opinion that the "double dip" interpretation in their view constitutes a violation of their pricing regualtions. Remedial action will be taken in the event "banked" double dip costs are sought to be passed through to customers.

Attached hereto are:

(1) An explanation of how the "double dip" might operate;

(2) Calculations on the derivation of over-recovery due to "double dip"; and

(3) List of FEO rules and regulations promulgated from December 6, 1973 through May 19, 1974.

Attachments

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Attachment (1)

EXPLANATION OF THE "DOUBLE DIP"

FACTS:

Firm "A" a major oil company, purchases 700,000/bbls per day of crude oil during a specific month with a total cost of $6,300,000/day. This cost is composed to two primary elements - $3,600,000 for 500,000 bbls of domestic crude and $2,700,000 for 200,000 bbls of foreign crude. This firm is required to sell 100,000 bbls per day of its crude to small and independent refiners at its weighted average cost of $9.00/bbl.

Scenario I:

Firm "A" has a total crude cost of $6,300,000 per day. Any recovery of costs received in excess of this would amount to an over recovery. Therefore, if the firm passes through to its customers $6,300,000 per day of crude costs while at the same receives $900,000 revenue from the sale of crude to small refiners a "double dip" has occurred. This may be demonstrated as follows:

Crude Cost

Domestic Crude	500,000 bbl @$7.20 =	$3,600,000
Foreign Crude	200,000 bbl @$13.50=	2,700,000
Total Crude Cost		$6,300,000

Revenue Received From Crude

Crude Cost Passed Through To Firm "A's" Customers	$6,300,000
Revenue Received From Allocation Sale	900,000
Total Revenue	$7,200,000

Amount of Over Recovery

Total Revenue	$7,200,000
Total Cost	6,300,000
Over Recovery ("Double Dip")	$ 900,000

Senario II:

Dollar-for Dollar cost pass through without "Double Dip":

Crude Cost	$6,300,000
Revenue	
Crude Cost Passed Through To Firm "A^S" Customers	5,400,000
Revenue Received From Allocation Sale 100,000/bbl @$9.00	900,000
	$6,300,000

As can be seen, the difference between this scenario and the first, is that the appropriate deduction is made with respect to the crude costs which are passed through to Firm "A^S" customers.

Attachment (2) 4d

Derivation of the Actual and Potential Dollars per Gallon Petroleum Product Price Over-recovery Due to the "Double Dip"

The following computations are made in an attempt to derive the increased petroleum costs on a dollars per gallon basis that: (1) have actually been recovered in the petroleum products markets during the past several months; and, (2) the potential costs that might have been recovered had the market allowed such recovery.

Current Cost Structure

Domestic Production = 8.883 mm/bd^1
old oil = 63% or 5.596 mm/bd
decontrolled oil = 37%^{2} or 3.287 mm/bd

old oil price = \$5.25
decontrolled oil price = \$10.10

(.63)(\$5.25)+(.37)(\$10.10) = \$3.31 + \$3.74 =
\$7.05 average cost of domestic crude oil

Imported Crude and Products
crude oil imports = 3.53 mm/bd^1
imported petroleum products = 2.818 mm/bd^1

total petroleum imports = 6.348 mm/bd^1

$$\text{total current oil flow} = \begin{array}{r} 6.348 \\ \underline{+8.883} \\ 15.231 \end{array}\ \text{mm/bd}$$

$\frac{6.348}{15.231} = 41.7\%$

$\frac{8.883}{15.231} = 58.3\%$

U.S. Cost Base before Over-recovery

(.583)($7.05)+(.417)($12.67)[2]
$411 + 5.28 = $9.39

° actual July composite purchases cost was $9.30 (RARP)

Actual increased costs due to over-recovery

(if passed through during one month)

° using the higher $9.36 bbl base cost we can compute the average $ per gal. cost increase that the $40 million over-recovery would have caused had all of this amount of costs been passed-through during one month.

($9.39 per bbl.)(15.231 mm/bd) = $143.019 million per day
($143.019 million per day)(31 days) =
$4,433,592,000 per month

$4,433,592,000
\+ 40,000,000 over-recovery

$4,473,592,000/31 = $144.3094

$144.309/15.231 mm/bd = $9.4747 new per barrel average cost after over-recovery

$9.475 - 9.39 = $.085 bbl. increase in per barrel crude costs due to over-recovery

$\frac{\$.085}{42 \text{ gal.}} = \$.002$ gal. increase in per gallon crude costs due to over-recovery

Potential one month increased costs due to over-recovery

$\frac{\$332 \text{ million}}{40} = 8.3(.2¢) = \$.0166$ gal.

Note: The above increased petroleum product costs would probably not have been passed-through to the market within a one month period, but would have been spread over several months. The following table represents how such cost increases in dollars per gallon/per month terms might have been spread over time.

TIME PERIOD OF COST RECOVERY IF SPREAD OVER:

	one month (one shot price increase)	two months	four months
actual	$0.002 gal.	$0.001 gal.	$0.0005 gal.
potential	$0.0166 gal.	$0.0083 gal.	$.0042 gal.

FOOTNOTES:

[1] API Weekly Statistical Bulletin, September 13, 1974, latest four weeks average daily U.S. oil production and imported crude and products rates.

[2] Latest PIMS data, phoned in during mid-September.

Attachment (3)

FEO Rules and Regulations Drafted and Promulgated from December 6, 1973 thru May 19, 1974

December 1973

Proposed Rules for Mandatory Fuel Allocation - covering:

- ° Crude oil
- ° Propane and butane
- ° Motor gasoline
- ° Middle distillates
- ° Aviation fuels
- ° Residual fuel oils
- ° Other products
- ° Antitrust applicability
- ° Reporting and record keeping requirements
- ° Allocations, market share and market entry
- ° Delegation of authority to state offices and local boards

Signed: John C. Sawhill, Deputy Administrator
Published: December 13, 1974
38 Fed. Reg. 34414-34435 (21 pages)

Mandatory Allocation Program for Middle Distillate Fuels: Extended to Aviation Fuels

Signed: John C. Sawhill, Deputy Administrator
Published: December 20, 1973
38 Fed. Reg. 35307, 35352 (2 pages)

January 1974

Rules and Regulations - covering:

- ° Fuel allocation and pricing [miscellaneous amendments to correct omissions and clerical errors in parts 205, 210, 211 and 212 of FEO regulations published. January 15, 1973 (39 FR 1929)]
- ° Gasoline prices: non-product costs
- ° Refinery yield control program revision

Signed: William N. Walker, General Counsel
Published: February 15, 1974 (effective January 19, 1974)
39 Fed. Reg. 6530-6532 (3 pages)

Mandatory Petroleum Allocation and Price Regulations

- ° Benzene and toluene amendments
- ° Definition of passenger transportation service

Signed: William N. Walker, General Counsel
Published: February 25, 1974
39 Fed. Reg. 7929 (1 page)

Petroleum Allocation; Cargo Freight and Mail Hauling

Signed: William N. Walker, General Counsel
Published: February 4, 1974
39 Fed. Reg. 5775 (1 page)

Proposed Rules - Mandatory Petroleum Allocation Regulations: Certain Allocations of Distillate Fuels

Signed: John C. Sawhill, Deputy Administrator
To be effective: March 1, 1974
39 Fed. Reg. 4592 (1 page)

Mandatory Petroleum Allocation and Price Regulations; Corrections of National Supply/Capacity Ratio and Refiners Buy/Sell List

Signed: John C. Sawhill, Deputy Administrator
Effective: January 30, 1974
39 Fed. Reg. 4450 (1 page)

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Mandatory Petroleum Allocation: Weekly Petroleum Reporting System

Signed: William N. Walker, General Counsel
Effective: February 7, 1974
39 Fed. Reg. 5272 (1 page)

General Allocation and Price Rules: Mandatory Petroleum Price Regulations: Petrochemicals Pricing and Ruling on Supplier/Purchaser Relationships under Petroleum Allocation Regulations

Signed: William N. Walker, General Counsel
Effective: January 31, 1974
39 Fed. Reg. 4466-67 (2 pages)

Mandatory Petroleum Price Regulations; Removal of Distillate Production Incentive

Signed: William N. Walker, General Counsel
Effective: March 1, 1974
39 Fed. Reg. 7581-82 (2 pages)

Mandatory Petroleum Price Regulations; Special Price Rule for Diesel Fuel Sales

Signed: William N. Walker, General Counsel
Effective: February 5, 1974
39 Fed. Reg. 4784 (1 page)

Mandatory Petroleum Allocation Regulations - covering:

- ° Crude oil and refinery yield control
- ° Propane and butane
- ° Motor gasoline
- ° Middle distillates
- ° Aviation fuels
- ° Residual fuel oil
- ° Petrochemical feedstocks
- ° Other products
- ° Antitrust applicability
- ° Reporting and record keeping requirements

° Allocations, market share and market entry

Signed: John C. Sawhill, Deputy Administrator
Publication: January 2, 1974
39 Fed. Reg. 744-70 (26 pages)

Proposed Rules - Decreased Illumination of Highways; Proposal for Comments

Signed: John C. Sawhill, Deputy Administrator
Published: January 7, 1974

Mandatory Petroleum Products, Allocation Regulations; Motor Gasoline

Signed: John C. Sawhill, Deputy Administrator
Effective: January 11, 1974
39 Fed. Reg. 1773 (1 page)

Mandatory Petroleum Allocations; Continuation of State Reserves Program

Signed: John C. Sawhill, Deputy Administrator
Effective: January 18, 1974
39 Fed. Reg. 2598 (1 page)

Mandatory Petroleum Allocation Regulations; Allocation of Crude Oil

Signed: John C. Sawhill, Deputy Administrator
Effective: January 14, 1974
39 Fed. Reg. 3908 (1 page)

Mandatory Petroleum Allocation Regulations; Aviation Fuels Allocation Methods

Signed: John C. Sawhill, Deputy Administrator
Effective: January 14, 1974
39 Fed. Reg. 3909 (1 page)

Mandatory Petroleum Allocation Regulations; Residual Fuel Oil Conforming Amendments

Signed: John C. Sawhill, Deputy Administrator
Effective: January 14, 1974
39 Fed. Reg. 3909 (1 page)

Allocation and Procedural Regulations; Additions and Revocations

Signed: John C. Sawhill, Deputy Administrator
Effective: January 14, 1974
39 Fed. Reg. 1924 (1 page)

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State and Local Government Sales: Removal of Exemptions

Signed: William N. Walker, General Counsel
Effective: October 25, 1973
39 Fed. Reg. 7176-77 (2 pages)

Gasoline Prices; Non-product Cost Pass-through

Signed: William N. Walker, General Counsel
Effective: February 26, 1974
39 Fed. Reg. 7795-95 (2 pages)

General Allocations and Price Rules - covering:

° Refusal to sell product

° Ruling on the impact of state tax on gross sales

Signed: William N. Walker, General Counsel
Effective: February 8, 1974
39 Fed. Reg. 5310,5311 (2 pages)

Rulings on:

° Gasoline, discrimination among purchasers

° Propane, price determination

Signed: William N. Walker, General Counsel
Published: February 14, 1974
39 Fed. Reg. 6111-12 (2 pages

February 1974

Rules and Regulations - covering:

- Fuel allocation and pricing (miscellaneous amendments to correct omissions and clerical errors in Parts 205, 210, 211 and 212 of FEO regulations)
- Gasoline prices: non-product costs
- Refinery yield control program revision

Signed: William N. Walker, General Counsel
Published: January 14, 1974
Issued: February 15, 1974
39 Fed. Reg. 6530-32 (3 pages)

Mandatory Petroleum Allocation and Price Regulations - covering:

- Benzene and toluene amendments
- Definition of passenger transportation service

Signed: William N. Walker, General Counsel
Effective: February 25, 1974
39 Fed. Reg. 7429 (1 page)

Petroleum Allocation; Cargo Freight and Mail Hauling

Signed: William N. Walker, General Counsel
Effective: February 4, 1974
39 Fed. Reg. 5775 (1 page)

Proposed Rules - Mandatory Petroleum Allocation Regulations; Certain Allocations of Distillate Fuels

Signed: John C. Sawhill, Deputy Administrator
Effective: March 1, 1974
39 Fed. Reg. 4592 (1 page)

Mandatory Petroleum Allocation and Price Regulations; Correction of Rational Supply/Capacity Ratio and Refiners Buy/Sell List

Signed: John C. Sawhill, Deputy Administrator
Effective: January 30, 1974
39 Fed. Reg. 4450 (1 page)

Mandatory Petroleum Allocation: Weekly Petroleum Reporting System

Signed: William N. Walker, General Counsel
Effective: February 7, 1974
39 Fed. Reg. 5272 (1 page)

General Allocation and Price Rules - concerning:

° Mandatory petroleum price regulations

° Petroleum price regulations

° Relationships under petroleum allocation regulations

Signed: John C. Sawhill, Deputy Administrator
Effective: January 31, 1974
39 Fed. Reg. 4466-67 (4 pages)

Mandatory Petroleum Price Regulations; Removal of Distillate Production Incentive

Signed: William N. Walker, General Counsel
Effective: March 1, 1974
39 Fed. Reg.· 7581-82 (2 pages)

Mandatory Petroleum Price Regulations; Special Price Rule for Diesel Fuel Sales

Signed: William N. Walker, General Counsel
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39 Fed. Reg. 4784 (1 page)

State and Local Government Sales: Removal of Exemptions

Signed: William N. Walker, General Counsel
Effective: October 25, 1974
39 Fed. Reg. 7176-77 (2 pages)

Gasoline Prices; Non-product Cost Pass-Through

Signed: William N. Walker
Effective: February 26, 1974
39 Fed. Reg. 7795-96

General Allocations and Price Rules - concerning:

° Refusal to sell

° A ruling on the impact of state tax on gross sales

Signed: William N. Walker, General Counsel
39 Fed. Reg. 5310-11 (2 pages

Ruling on Gasoline - concerning:

° Discrimination among purchasers

° Propane price determination

Signed: William N. Walker, General Counsel
Publication: February 14, 1974
39 Fed. Reg. 6111-12 (2 pages)

March 1974

Mandatory Petroleum Allocation Regulations; Unusual Growth Adjustment of Base Period Volumes

Signed: William N. Walker, General Counsel
Effective: March 15, 1974
39 Fed. Reg. 10156 (1 page)

Production or Disclosure of Material Information

Signed: William N. Walker, General Counsel
Effective: March 19, 1974
39 Fed. Reg. 10153 (1 page)

Proposed Rules; Jet Fuel Allocation and Pricing Rules

Signed: William E. Simon, Administrator
Published: March 4, 1974
39 Fed. Reg. 8354 (1 page)

Proposed Rules; Allocation and Pricing of Non-bonded Aviation Fuel for International Carriers

Signed: William N. Walker, General Counsel
Published: March 25, 1974
39 Fed. Reg. 11205 (1 page)

Supplier/Purchaser Relationships for Civil Air Carriers

Signed: William N. Walker, General Counsel
Published: March 15, 1974
39 Fed. Reg. 11205 (1 page)

Mandatory Petroleum Allocation Regulations; Protection of Crude Oil Imports

Signed: William N. Walker, General Counsel
Effective: February 27, 1974
39 Fed. Reg. 7925 (1 page)

Proposed Rules; Crude Oil Allocation Program; Crude Oil and Refinery Yield Control

Signed: William N. Walker, General Counsel
Publication: March 5, 1974
39 Fed. Reg. 8633 (1 page)

Proposed Rules; Regulatory framework for Allocation Program; Clarification and Revision

Signed: William E. Simon, Administrator
Publication: March 27, 1974
39 Fed. Reg. 11768 (1 page)

Mandatory Petroleum Allocation Regulations; Monthly Reports by Refiners and Importers

Signed: William N. Walker, General Counsel
Effective: March 18, 1974
39 Fed. Reg. 10236 (1 page)

Mandatory Petroleum Price Regulations; Re-seller Rule in Puerto Rico

Signed: William N. Walker, General Counsel
Effective: March 18, 1974
39 Fed. Reg. 10434 (1 page)

Proposed Rule; Puerto Rico; Price Regulations and Public Hearing

Signed: William N. Walker, General Counsel
Publication: March 18, 1974
39 Fed. Reg. 10454 (1 page)

April 1974

Allocation of Non-bonded Aviation Fuel and Pricing

Signed: William N. Walker, General Counsel
Publication: April 23, 1974
39 Fed. Reg. 13549, 14509 (2 pages)

Allocation and Pricing of Non-bonded Aviation Fuel

Signed: William N. Walker, General Counsel
Effective: April 8, 1974
39 Fed. Reg. 12995 (1 page)

Mandatory Petroleum Allocation Regulations; Allocation of Crude Oil

Signed: William N. Walker, General Counsel
Effective: April 1, 1974
39 Fed. Reg. 12109 (1 page)

Proposed Rules; Propane Allocation Program

Signed: William N. Walker, General Counsel
Publication: April 5, 1974
39 Fed. Reg. 12846 (1 page)

Definition of "Covered Products" with Respect to Parts 210 and 212

Signed: William N. Walker, General Counsel
Effective: April 3, 1974
39 Fed. Reg. 12353 (1 page)

Petroleum Price Regulations - covering:

- ° Price increases to reflect increases in non-product costs
- ° Consignee agents commissions
- ° Refiners price adjustment

Signed: William N. Walker, General Counsel
Effective: April 1. 1974
39 Fed. Reg. 12011-13 (3 pages)

Petroleum Price Regulations; Removal of Exemption for Federal, State and Local Government Sales

Signed: John C. Sawhill, Deputy Administrator
Effective: April 2, 1974
39 Fed. Reg. 12252 (1 page)

May 1974

Jet Fuel; Ruling on Unrecouped Increased Product Costs

Signed: William N. Walker, General Counsel
Published: May 21, 1974
39 Fed. Reg. 18423 (1 page)

Proposed Rules; Allocated Products; "Summer Fill" and Other "Dating" Programs

Signed: William N. Walker, General Counsel
Published: May 21, 1974
39 Fed. Reg. 18471 (1 page)

Mandatory Petroleum Allocation Regulations; Revisions

Signed: John C. Sawhill, Deputy Administrator
Effective: June 1, 1974
39 Fed. Reg. 15960-83 (24 pages)

Non-bonded Aviation Fuel; Allocation

Signed: William N. Walker, General Counsel
Effective: May 16, 1974
39 Fed. Reg. 17561 (1 page)

Proposed Rules; Butane, Naphtha, and Other Products; Allocations

Signed: William N. Walker, General Counsel
Publication: May 16, 1974
39 Fed. Reg. 17916 (1 page)

Mandatory Crude Oil Allocation; Revision

Signed: William N. Walker, General Counsel
Effective: May 10, 1974
39 Fed. Reg. 17987 (1 page)

Mandatory Petroleum Allocation; Motor Gasoline, Retail Sales Outlets and Mandatory Petroleum Prices; Sales of Unleaded Gasoline

Signed: William N. Walker, General Counsel
Published: May 23, 1974
39 Fed. Reg. 18637-41 (5 pages)

Proposed Rules; Allocation and Pricing of Unleaded Gasoline

Signed: William N. Walker, General Counsel
Publication: May 23, 1974
39 Fed. Reg. 18666 (1 page)

Low Sulfur Petroleum Products

Signed: William N. Walker, General Counsel
Effective: April 29, 1974
39 Fed. Reg. 15137 (1 page)

Petroleum Allocation; Extension of Current Propane Allocation Program

Signed: William N. Walker, General Counsel
Effective: April 30, 1974
39 Fed. Reg. 15138 (1 page)

Petroleum Price Regulations - covering:

° Adjustment to refiner's price formula to reflect volume of covered products

° Correction amendments to refiners cost calculations

° Rent charged for real property used in the retailing of gasoline

Signed: William N. Walker, General Counsel
Effective: May 30, 1974
39 Fed. Reg. 15938-40 (3 pages)

Proposed Rules; Synthetic Natural Gas Feedstock; Allocation Regulations

Signed: William N. Walker, General Counsel
Published: May 9, 1974
39 Fed. Reg. 17237 (1 page)

Current Free Market Price for New and Released Crude Oil; Ruling

Signed: William N. Walker, General Counsel
Published: May 16, 1974
39 Fed. Reg. 17766 (1 page)

Mandatory Petroleum Regulations; Puerto Rico

Signed: William N. Walker, General Counsel
Published: May 16, 1974
39 Fed. Reg. 17764 (1 page)

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Proposed Rules; Mandatory Petroleum Regulations; Computation of Landed Cost

Signed: William N. Walker, General Counsel
Published: May 16, 1974
39 Fed. Reg. 17771 (1 page)

Mandatory Crude Allocation Program Revisions

Signed: William N. Walker, General Counsel
Effective: May 19, 1974
39 Fed. Reg. 17288 (1 page)

APPENDIX B

TREASURY DEPARTMENT STAFF ANALYSIS

THE PROPANE PROBLEM

The problems of skyrocketing propane prices were caused directly by the price control regulations designed to protect the consumer.

At the outset of Phase III of the Economic Stabilization Program on January 11, 1973, the petroleum industry was subject to the same general guidelines which applied to most other industries and which were to be self-administered. As a general guide, price increases above authorized levels could not exceed increases in costs, and could not result in an increase in a firm's profit margin.

The Cost of Living Council (COLC) held hearings on petroleum prices in February, and on March 6, 1973 imposed mandatory controls on petroleum firms with $250 million or more in annual sales and revenues. The impact of the Phase III rules on propane prices was only upon those transactions by companies with annual sales of $250 million or more. Thus many small producers of propane, including many thousands of natural gas processors, were not subject to COLC regulations. These rules remained in effect until the freeze in June 1973.

Traditionally, major oil companies purchased significant volumes of propane from small producers for resale. However, with market prices for major oil companies restricted by price controls, non-traditional speculators and brokers moved into the market place in the spring of 1973, outbidding the major oil companies for small company sales of propane. The customers for this high priced propane were most often interruptible industrial consumers of natural gas that was also in short supply because of price controls.

This situation proved extremely disruptive to the traditional supplier/purchaser relationship in the propane market. As a further consequence, later economic controls for propane which utilized the base date of May 15, 1973 reflected such built-in distortions.

After June 13, 1973, prices for all petroleum products were frozen. The freeze remained in existence until August 19, 1973, at which time the COLC promulgated Subpart L of the overall Phase IV regulations.

On October 2, 1973, the Cost of Living Council delegated price stabilization authority for propane to the former Energy Policy Office headed by Governor Love. The transfer of pricing authority was motivated by the need to assure effective coordination between price and allocation controls. The authority to regulate propane was subsequently delegated to the Federal Energy Office in late December of 1973, where the original Cost of Living Council Phase IV propane rule remained in effect until amended by the FEO on February 1, 1974.

The Special Propane Rule of February 1, 1974, was designed to limit the costs which refiners would be permitted to allocate to propane and pass on to consumers in the form of higher prices. Prior to the Special Propane Rule, refiners could allocate increased crude costs to propane in whatever amount the refiner deemed appropriate. This aspect of price flexibility built into the propane rule was a characteristic of the petroleum price rules carried over from the Cost of Living Council. The COLC rule thus permitted refiners to apportion a disproportionate share of their increased costs to propane, thereby causing substantially greater increases in the price of propane than increases in the prices of other petroleum products.

On February 1 the FEO promulgated its amendment to limit the crude costs that a refiner could allocate to propane during any 12 month period following January 31, 1974.

The new rule had the immediate effect of reducing propane prices from 2¢ to 6¢ per gallon at the refiner level. Further, it prevented future propane prices from bearing a disproportionate share of the cost allocated to propane. This rule remained in effect throughout the spring of 1974.

Even more recently, on August 1, 1974, the FEA has further amended the Special Propane Rule. The new rule provides that allocation by a refiner of crude cost to propane is limited to an amount that is proportional to the sales volume of only that propane which is actually produced by a refiner from crude oil (typically 3%).

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
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FOR IMMEDIATE RELEASE October 3, 1974

ASSISTANT SECRETARY BRECHT NAMES TEN TO WOMEN'S ADVISORY COMMITTEE

Assistant Secretary of the Treasury for Administration Warren F. Brecht has appointed 10 senior level officials to Treasury's Women's Advisory Committee to inform the Secretary and the Department on the special concerns of women.

At the initial meeting of the Committee, Mr. Brecht said, "I hope this Committee will be able to make policy recommendations on how to improve and strengthen the overall Federal Women's Program within the Department, and that it will meet at least quarterly with me and the Federal Women's Program Coordinator to assess the overall progress of the Program and report to the Secretary on the impact of the Program."

Mr. Brecht appointed Anita F. Alpern, Deputy Assistant Commissioner, IRS, the top ranking career woman in Treasury, as chairman of the Committee. Other members are Esther C. Lawton, Office of Personnel; Bonnie Gay, Office of the General Counsel; Inez S. Lee, Office of Equal Opportunity Program, all of the Office of the Secretary; and Sadie L. Mitchell, Bureau of Engraving & Printing; Dorothy M. Lee, Bureau of Alcohol, Tobacco & Firearms; Gertrude Mangan, Bureau of Government Financial Operations; Grace Ferrill, Bureau of Public Debt; Roberta Boylan, Comptroller of the Currency; and Doris Robinson, U.S. Customs Service.

Perl Whelchel, Departmental Federal Women's Program Coordinator, will serve as staff to the Committee and Liaison to Bureau management officers and women's coordinators. She and Helene Melzer of Public Affairs will serve on the Committee, in advisory roles.

The Committee has been asked to recommend specific actions covering both a short and long range time frame. On the more immediate basis, the Committee is looking into currently on-going action plans involving recruitment, promotion, training, and upward mobility to enhance equal employment opportunities for women in the Treasury

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Department. Paralleling these efforts, the Committee is also seeking ways to ensure equal consideration of Treasury women for awards and special recognition that heretofore have been male dominated, and to energize awareness programs involving top management.

For the longer range, the Committee has under consideration an Annual Women's Program Conference, Treasury participation in International Women's Year--1975, the American Bicentennial Program, and a revision of the 1966 study on the Status of Women in Treasury. In addition, the Committee will consider actions relating to part-time work and day-care centers.

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WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE
Monday, October 7, 1974
2:00 P.M., E.S.T.

GENERAL REVENUE SHARING AUDIT AGREEMENT SIGNED BY STATE OF ILLINOIS

In a ceremony held at the Treasury Department in Washington, D. C. today, representatives of the State of Illinois formally agreed to review audits of revenue sharing expenditures by 1,524 Illinois local governments each year.

The arrangement was formalized in a document signed for the Treasury Department by Office of Revenue Sharing Director, Graham W. Watt and for Illinois by State Comptroller George W. Lindberg. Also participating in the ceremony were the following Illinois state officials: the Director of the Special Audit Division, Ronald M. Hamelberg; Manager of Local Audits, Peter N. Brown; and the Executive Assistant to the Comptroller, Roger C. Nauert.

Illinois auditors will review revenue sharing expenditures of all local governments in the state, with the exception of cities with populations under 800 that have no utilities and towns with annual appropriations of under $100,000.

The reviews will be made using standards put forward by the Office of Revenue Sharing. These include reference to financial practices and compliance with civil rights and other provisions of the State and Local Fiscal Assistance Act of 1972 (revenue sharing law). Illinois auditors will refer apparent violations of revenue sharing law to the Office of Revenue Sharing for action.

In signing today's agreement, Illinois became the sixth state to join the Office of Revenue Sharing's Cooperative State Audit Program. Similar pacts have been concluded with New York, Michigan, Tennessee, Florida and Minnesota.

"Participation by the State of Illinois brings to more than 5900 the number of local governments now covered by our Cooperative State Audit Program," Graham Watt announced. "The program means a saving of time and money, since the Federal government will not be duplicating an audit system already in place," he said. "In addition, the work performed will be of better quality, since the auditors are already familiar with the laws and accounting procedures applicable in their own states."

In addition to the Cooperative State Audit Program, the Office of Revenue Sharing will be performing its own audits on a random basis and investigating allegations of noncompliance with revenue sharing law.

Nearly 39,000 units of state and local government in the United States are receiving general revenue sharing funds regularly. The State and Local Fiscal Assistance Act authorizes the distribution of $30.2 billion over a five-year period that ends with December 1976. More than $15.8 billion have been distributed since the first checks were mailed, in December 1972.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE October 4, 1974

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $ 4,700,000,000 , or thereabouts, to be issued October 17, 1974, as follows:

91-day bills (to maturity date) in the amount of $ 2,700,000,000, or thereabouts, representing an additional amount of bills dated July 18, 1974, and to mature January 16, 1975 (CUSIP No. 912793 VR4), originally issued in the amount of $1,901,310,000, the additional and original bills to be freely interchangeable.

182-day bills, for $ 2,000,000,000, or thereabouts, to be dated October 17, 1974, and to mature April 17, 1975 (CUSIP No. 912793 WE2).

The bills will be issued for cash and in exchange for Treasury bills maturing October 17, 1974, outstanding in the amount of $4,506,030,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $ 2,597,540,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, 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 one-thirty p.m., Eastern Daylight Saving time, Friday, October 11, 1974. Tenders will not be received at the Department of the Treasury, 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.

Banking institutions and dealers who make primary markets in Government

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

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. 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 or Branch on October 17, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 17, 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 bills (other than life insurance companies) issued hereunder must include in his Federal 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.

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

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Statements of

THE PRESIDENT OF THE UNITED STATES

and

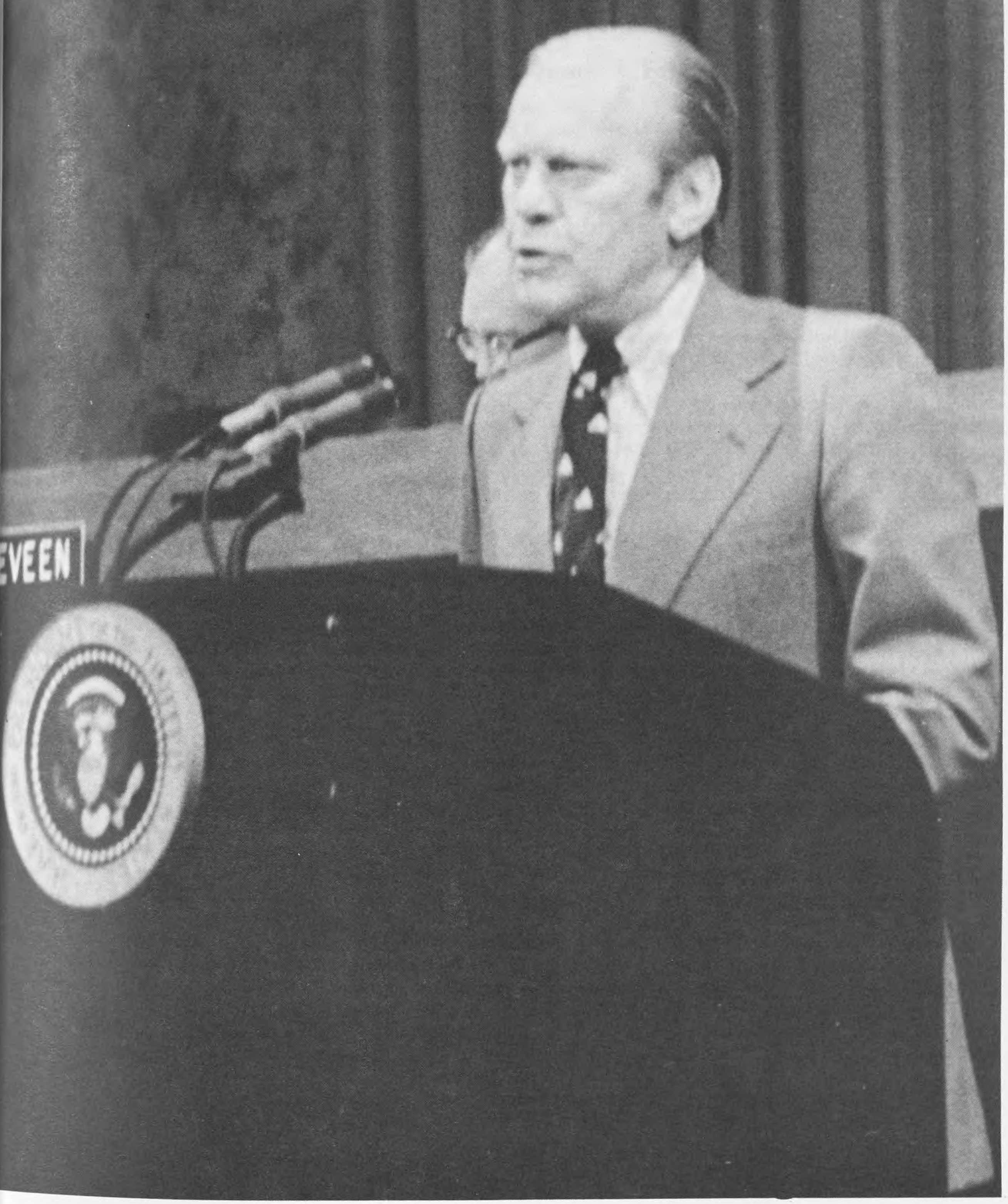
THE SECRETARY OF THE TREASURY

Before the Annual Meetings of the Boards of Governors

International Monetary Fund and International Bank for Reconstruction and Development and Affiliates

September 30 - October 4, 1974
Washington, D.C.

1789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THE PRESIDENT'S STATEMENT

Remarks of President Gerald R. Ford
at the
Opening Session of the 1974 Annual Meetings
of the
Boards of Governors of the
International Monetary Fund and the World Bank Group
September 30, 1974

I extend you a warm welcome. We come together here at a time of unprecedented challenge in the world economy. But that makes my welcome to you, who must help solve these problems, even warmer.

The problems that confront us today are serious and complex—a worldwide inflation at a rate far in excess of what we can tolerate; unparalleled disruptions in the supply of the world's major commodities; and severe hindrances to the real growth and progress of many nations, including, in particular, some of the poorest among us.

We in America view these problems soberly and without rose-tinted glasses. But we believe that the same spirit of international cooperation which brought forth the Bretton Woods agreements a generation ago can resolve the difficulties we face today.

My capable Secretary of the Treasury will speak in greater detail on how we view these problems and how we think they can be solved. But I think I can sum up our thinking very briefly. We want solutions which serve broad interests rather than narrow self-serving ones. We want more cooperation not more isolation. We want trade not protectionism. We want price stability not inflation. We want growth not stagnation. We want a better life for ourselves and our children.

You will help to decide how this can best be done. The United States is prepared to join with your governments and play a constructive leadership role.

Again, welcome to Washington, and good luck in your deliberations.


MONETARY FU
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THE SECRETARY'S STATEMENT

Address of the Honorable William E. Simon
Secretary of the Treasury of the United States
before the 1974 Annual Meetings of the
Boards of Governors of the
International Monetary Fund,
International Bank for Reconstruction and Development,
International Finance Corporation, and
International Development Association
at the Sheraton Park Hotel
Washington, D.C., October 1, 1974

Mr. Chairman, Mr. Witteveen, Mr. McNamara, Fellow Governors, Distinguished Guests:

Our recent annual meetings have reflected encouraging changes in the international economic scene. Three years ago, our attention was focused on the New Economic Policy introduced by the United States to eliminate a long standing imbalance in the world economy. Two years ago we launched a major reform of the international trade and payments system. Last year we developed the broad outlines of monetary reform.

This year circumstances are different. We face a world economic situation that is the most difficult since the years immediately after World War II.

Our predecessors in those early postwar years responded well to the great challenges of that period. I am confident we can also respond appropriately to the challenges of our day. But first we must identify the issues correctly.

Let me declare myself now on three of these key issues.

First, I **do not** believe the world is in imminent danger of a drift into cumulative recession—though we must be alert and ready to act quickly should the situation change unexpectedly. I **do** believe the world must concentrate its attention and its efforts on the devastating inflation that confronts us.

Second, I **do not** believe the international financial market is about to collapse. I **do** believe that situations can arise in which individual countries may face serious problems in borrowing to cover oil and other needs. For that reason we must all stand prepared to take cooperative action should the need arise.

Third, I firmly believe that undue restrictions on the production of raw materials and commodities in order to bring about temporary increases in their prices threaten the prosperity of all nations and call into question our ability to maintain and strengthen an equitable and effective world trading order.

The Inflation Problem

With respect to the first of these issues, it is clear that most countries are no longer dealing with the familiar trade-off of the past, balancing a little more or less inflation against a little more or less growth and employment. We are confronted with the threat of inflationary forces so strong and so persistent that they could jeopardize not only the prosperity but even the stability of our societies. A protracted continuation of inflation at present rates would place destructive strains on the framework of our present institutions—financial, social and political.

Our current inflation developed from a combination of factors: In addition to pressures emanating from cartel pricing practices in oil, we have suffered from misfortune—including bad weather affecting crops around the world; bad timing—in the cyclical convergence of a worldwide boom; and bad policies—reflected in years of excessive government spending and monetary expansion. As financial officials, we cannot be held responsible for the weather, but we must accept responsibility for government policies, and we must recommend policies that take fully into account the circumstances of the world in which we find ourselves.

In today's circumstances, in most countries, there is in my view no alternative to policies of balanced fiscal and monetary restraint. We must steer a course of firm, patient, persistent restraint of both public and private demand, and we must maintain this course for an extended period of time, until inflation rates decrease. We must restore the confidence of our citizens in our economic future and our ability to maintain strong and stable currencies.

Some are concerned that a determined international attack on inflation by fiscal and monetary restraint might push the world into a deep recession, even depression.

I recognize this concern, but I do not believe we should let it distort our judgment.

Of course we must watch for evidence of excessive slack. The day is long past when the fight against inflation can be waged in any country by tolerating recession. We must remain vigilant to the danger of cumulative recession. But if there is some risk in moving too slowly to relax restraints, there is also a risk—and I believe a much greater risk—in moving too rapidly toward expansive policies. If we fail to persevere in our anti-inflation policies now, with the result that inflation becomes more severe, then in time countermeasures will be required that would be so drastic as to risk sharp downturns and disruptions in economic activity.

There is a tendency to lay much of the blame on the international transmission of inflation. Certainly with present high levels of world trade and investment, developments in any economy, be they adverse or favorable, are quickly carried to other economies. But that does not absolve any nation from responsibility to adapt its financial policies so as to limit inflation and to shield its people from the ultimate damage which inflation inflicts on employment, productivity and social justice in our societies.

Recycling and the Strength of Capital Markets

In addition to inflation, public concern has centered on methods of recycling oil funds and on whether we need new institutions to manage those flows.

So far, our existing complex of financial mechanisms, private and intergovernmental, has proved adequate to the task of recycling the large volumes of oil monies already moving in the system. Initially, the private financial markets played the major role, adapting in imaginative and constructive ways. More recently, government-to-government channels have increasingly been opened, and they will play a more important role as time goes by. New financing organizations have also been established by OPEC countries. Our international institutions—and specifically the IMF and World Bank—have redirected their efforts to provide additional ways of shifting funds from lenders to borrowers. The IMF responded rapidly in setting up its special oil facility.

In our experience over the period since the sharp increase in oil prices, three points stand out:

First, the amount of new investments abroad being accumulated by the oil exporting countries is very large—we estimate approximately $30 billion thus far in 1974.

Second, the net capital flow into the United States from all foreign sources, as measured by the U.S. current account deficit, has been small, about $2 billion so far this year. During the same period our oil import bill has been about $12 billion larger than it was in the comparable period last year.

Third, markets in the United States are channeling very large sums of money from foreign lenders to foreign borrowers. Our banks have increased their loans to foreigners by approximately $15 billion since the beginning of the year, while incurring liabilities to foreigners of a slightly larger amount. This is one kind of effective recycling. And while some have expressed concern that excessive oil funds would seek to flow to the United States, and would require special recycling efforts to move them out, the picture thus far has been quite different.

No one can predict for sure what inflows of funds to the U.S. will be in the future. But it is our firm intention to maintain open capital markets, and foreign borrowers will have free access to any funds which come here. The United States Government offers no special subsidies or inducements to attract capital here; neither do we place obstacles to outflows.

Nonetheless, some have expressed concern that the banking structure may not be able to cope with strains from the large financial flows expected in the period ahead. A major factor in these doubts has been the highly publicized difficulties of a small number of European banks and one American bank which have raised fears of widespread financial collapse.

The difficulties of these banks developed in an atmosphere of worldwide inflation and of rapid increases in interest rates. In these circumstances, and in these relatively few instances, serious management defects emerged. These difficulties were in no way the result of irresponsible or disruptive investment shifts by oil exporting countries. Nor were they the result of any failure in recycling or of any general financial crisis in any country.

The lesson to be learned is this: In a time of rapid change in interest rates and in the amounts and directions of money flows, financial institutions must monitor their practices carefully. Regulatory and supervisory authorities too must be particularly vigilant. We must watch carefully to guard against mismanagement and speculative excesses, for example, in the forward exchange markets. And we must make certain that procedures for assuring the liquidity of our financial systems are maintained in good working order. Central banks have taken major steps to assure this result.

Although existing financial arrangements have responded reasonably well to the strains of the present situation, and we believe they will continue to do so, we recognize that this situation could change. We should remain alert to the potential need for new departures. We do not believe in an attitude of laissez-faire, come what may. If there is a clear need for additional international lending mechanisms, the United States will support their establishment.

We believe that various alternatives for providing such supplementary mechanisms should be given careful study. Whatever decision is made will have profound consequences for the future course of the world economy. We must carefully assess what our options are and carefully consider the full consequences of alternative courses of action. The range of possible future problems is a wide one, and many problems can be envisaged that will never come to pass. What is urgently needed now is careful preparation and probing analysis.

We must recognize that no recycling mechanism will insure that every country can borrow unlimited amounts. Of course, countries continue to have the responsibility to follow monetary, fiscal and other policies such that their requirements for foreign borrowing are limited.

But we know that facilities for loans on commercial or near-commercial terms are not likely to be sufficient for some developing countries whose economic situation requires that they continue to find funds on concessional terms. Traditional donors have continued to make their contributions of such funds, and oil exporting countries have made some commitments to provide such assistance. Although the remaining financing problem for these countries is small in comparison with many other international flows, it is of immense importance for those countries affected. The new Development Committee which we are now establishing must give priority attention to the problems confronting these most seriously affected developing countries.

Trade in Primary Products

For the past two years, world trade in primary commodities has been subject to abnormal uncertainties and strains. Poor crops, unusually high industrial demand for raw materials, transport problems, and limited new investment in extractive industries have all contributed to tremendous changes in commodity prices. Unfortunately, new forms of trade restraint have also begun to appear.

In the past, efforts to build a world trading system were concentrated in opening national markets to imports. Clearly, we need now also to address the other side of the equation, that of supply.

The oil embargo, and the sudden sharp increase in the price of oil, with their disruptive effects throughout the world economy, have, of course, brought these problems to the forefront of our attention.

The world faces a critical decision on access to many primary products. In the United States we have sought in those areas where we are exporters to show the way by maximum efforts to increase production. Market forces today result in the export of many items from wheat to coal which some believe we should keep at home. But we believe an open market in commodities will provide the best route to the investment and increased production needed by all nations.

We believe that cooperative, market-oriented solutions to materials problems will be most equitable and beneficial to all nations. We intend to work for such cooperative solutions.

Prospects for the Future

In the face of our current difficulties—inflation, recycling, commodity problems—I remain firmly confident that, with commitment, cooperation and coordination, reasonable price stability and financial stability can be restored.

The experience of the past year has demonstrated that although our economies have been disturbed by serious troubles, the international trade and payments system has stood the test.

Flexible exchange rates during this period have served us well. Despite enormous overall uncertainties, and sudden change in the prospects for particular economies, exchange markets have escaped crises that beset them in past years. The exchange rate structure has no longer been an easy mark for the speculator, and governments have not been limited to the dismal choice of either financing speculative flows or trying to hold them down by controls.

Another encouraging fact is that the framework of international cooperation has remained strong. Faced with the prospect of severe balance-of-payments deterioration, deficit countries have on the whole avoided short-sighted efforts to strengthen their current account positions by introducing restrictions and curtailing trade.

In the longer run, we look forward to reinforcing this framework of cooperation through a broad-gauged multilateral negotiation to strengthen the international trading system. In the "Tokyo Round," we hope to reach widespread agreement, both on trade **liberalization** measures—helping all countries to use resources more efficiently through greater opportunities for exchange of goods and services—and on trade **management** measures—helping to solidify practices and procedures to deal with serious trade problems in a spirit of equity and joint endeavor. It is gratifying that more and more governments have recognized the opportunities—and the necessity—for successful, creative negotiations on trade.

We in the U.S. government recognize our own responsibility to move these negotiations along. Early last year we proposed to our Congress the Trade Reform Act to permit full U.S. participation in the trade negotiations. It is clear that in the intervening months the need for such negotiations has become all the more urgent. We have therefore been working closely with the Congress on this crucial legislation, and we shall continue to work to insure its enactment before the end of this year.

In the whole field of international economic relations, I believe we are beginning to achieve a common understanding of the nature of the problems we face. There is greater public recognition that there lies ahead a long, hard world-wide struggle to bring inflation under control. Inflation is an international problem in our interdependent world, but the cure begins with the policies of national governments. Success will require, on the part of governments, uncommon determination and persistence. There is today increasing awareness that unreasonable short-term exploitation of a strong bargaining position to raise prices and costs, whether domestically or internationally, inevitably intensifies our problems.

Finally I am encouraged that our several years of intensive work to agree on improvements in the international monetary system have now begun to bear fruit. The discussions of the Committee of Twenty led to agreement on many important changes, some of which are to be introduced in an evolutionary manner and others of which we are beginning to implement at this meeting.

For the immediate future, the IMF's new Interim Committee will bring to the Fund structure a needed involvement of world financial leaders on a regular basis, providing for them an important new forum for consideration of the financing of massive oil bills and the better coordination of national policies. The Interim Committee should also increasingly exercise surveillance over nations' policies affecting international payments, thereby gaining the experience from which additional agreed guidelines for responsible behavior may be derived.

Moreover, discussions in the Interim Committee can speed the consideration of needed amendments to the Fund's Articles of Agreement. These amendments, stemming from the work of the Committee of Twenty, will help to modernize the IMF and better equip it to deal with today's problems. For example, the Articles should be amended so as to remove inhibitions on IMF sales of gold in the private markets, so that the Fund, like other official financial institutions, can mobilize its resources when they are needed. In order to facilitate future quota increases, the package of amendments should also include a provision to modify the present requirement that 25 percent of a quota subscription be in gold. Such an amendment will be a prerequisite for the quota increase now under consideration. And the amendment will be necessary in any event for us to achieve the objectives shared by all the participants in the Committee of Twenty of removing gold from a central role in the system and of assuring that the SDR becomes the basis of valuation for all obligations to and from the IMF.

Preparation of an amendment to embody the results of the current quinquennial review of quotas offers us still another opportunity to reassess the Fund's role in helping to meet the payments problems of member nations in light of today's needs and under present conditions of relative flexibility in exchange rates.

The trade pledge agreed by the Committee of Twenty provides an additional framework for cooperative action in today's troubled economic environment. It will mitigate the potential danger in the present situation of self-defeating, competitive trade actions and bilateralism. The United States has notified its adherence to the pledge, and I urge other nations to join promptly in subscribing.

The new Development Committee, still another outgrowth of the work of the Committee of Twenty, will give us an independent forum that will improve our ability to examine comprehensively the broad spectrum of development issues. We look forward to positive results from this new Committee's critical work on the problems of the countries most seriously affected by the increase in commodity prices and on ways to ensure that the private capital markets make a maximum contribution to development.

The World Bank and its Affiliates

International cooperation for development is also being strengthened in other ways, notably through the replenishment of IDA. A U.S. contribution of $1.5 billion to the fourth IDA repenishment has been authorized by Congress, and we are working with our congressional leaders to find a way to complete our ratification at the earliest possible date. A significant new group of countries has become financially able to join those extending development assistance on a major scale. We would welcome an increase in their World Bank capital accompanied by a commensurate participation in IDA.

The United States is proud of its role in the development of the World Bank over the past quarter century. We are confident that the Bank will respond to the challenges of the future as it has so successfully responded in the past.

One of these challenges is to concentrate the Bank's resources to accelerate growth in those developing countries with the greatest need.

A second challenge is to continue the Bank's annual transfer of a portion of its income to IDA. The recent increase in interest rates charged by the Bank is not sufficient to enable the Bank to continue transfers to IDA in needed amounts. We urge that the Bank's Board promptly find a way to increase significantly the average return from new lending.

A third challenge is that the Bank find ways to strengthen its commitment to the principle that project financing makes sense only in a setting of appropriate national economic policies, of effective mobilization and use of domestic resources, and of effective utilization of the private capital and the modern technology that is available internationally on a commercial basis.

I should mention also that we are concerned about the Bank's capital position. We should encourage the Bank to seek ways to assist in the mobilization of funds by techniques which do not require the backing of the Bank's callable capital.

Within the Bank Group, we are accustomed to thinking mainly of the IFC in considering private capital financing. While now small, the IFC is, in my view, a key element in the total equation, and should be even more important in the future. But the Bank itself needs to renew its own commitment to stimulation of the private sectors of developing countries.

Finally, let me emphasize that the capable and dedicated leadership and staff of the World Bank have the full confidence and support of the United States as they face the difficult challenges of the current situation.

Conclusion

Ladies and Gentlemen, the most prosperous period in the history of mankind was made possible by an international framework which was a response to the vivid memories of the period of a beggar-thy-neighbor world. Faced with staggering problems, the founders of Bretton Woods were inspired to seek cooperative solutions in the framework of a liberal international economic order. Out of that experience evolved an awareness that our economic and politcal destinies are inextricably linked.

Today, in the face of another set of problems, we must again shape policies which reflect the great stake each nation has in the growth and prosperity of others. Because I believe that interdependence is a reality—one that all must sooner or later come to recognize—I remain confident that we will work out our problems in a cooperative manner.

The course which the United States will follow is clear. Domestically we will manage our economy firmly and responsibly, resigning ourselves neither to the inequities of continued inflation nor to the wastefulness of recession. We will strengthen our productive base, we will develop our own energy resources, we will expand our agricultural output. We will give the American people grounds for confidence in their future.

Internationally, let there be no doubt as to our course. We will work with those who would work with us. We make no pretense that we can, or should, try to solve these problems alone, but neither will we abdicate our responsibility to contribute to their solution. Together, we can solve our problems. Let me reaffirm our desire, and total commitment, to work with all nations to coordinate our policies to assure the lasting prosperity of all of our peoples.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
1789

FOR IMMEDIATE RELEASE OCTOBER 4, 1974

SECRETARY SIMON AND TREASURY MINISTER COLOMBO HOLD TALKS

The Secretary of the Treasury of the United States, Mr. William Simon, met today with the Minister of the Treasury of Italy, Mr. Emilio Colombo.

In the course of a long and wide-ranging conversation, the complex problems of inflation and of the disequilibria arising from the higher price of oil were examined. Special regard was given to the repercussions of the higher oil prices on domestic price levels and on the external accounts of consumer countries, especially those whose economies already had structural disequilibria and conjunctural difficulties when the oil crisis broke out. In the light of the discussions held in various international forums, and especially at the Annual Meeting of the IMF, the most appropriate ways to face these problems were examined in depth.

In this connection, the desire of both countries to cooperate closely in all international organizations was reaffirmed to ensure rapid progress towards a system that favors a better balance of international trade and that promotes the proper functioning of institutions.

(more)

The Ministers reaffirmed their support for the decision made earlier this week by the new Interim Committee of Ministers in the International Monetary Fund to consider "as a matter of urgency, the adequacy of existing private and official arrangements" for recycling of international investment.

It was recognized that Italy is among the industrialized countries hit hardest by the oil crisis. Minister Colombo outlined the prospective evolution of his country's balance of payments and the comprehensive fiscal and monetary program implemented by the Italian Government to fight inflation and to reduce the non-oil deficit. He underlined that, despite the favorable progress that has been made thus far towards the elimination of the non-oil deficit, the high oil deficit still gives rise to difficult financing problems even in the presence of substantial reserves and bilateral and multilateral lines of credit. The two Ministers recognized that in these circumstances special care must be exercised to avoid adding to existing uncertainties in the international markets.

Secretary Simon recalled President Ford's recent assurances that "the U.S. is prepared to play an appropriate, constructive and responsible role in a return to economic equilibrium in Italy." In that context, the two Ministers explored a wide range of possible concrete ways in which the two countries might work more closely together in the interest of economic stability in Italy and in the international community at large. They agreed that these conversations will be continued at an appropriate opportunity in the near future.

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MEMORANDUM FOR CORRESPONDENTS: October 4, 1974

The Secretary of the Treasury, William E. Simon, announced today that contracts for the sale of approximately 125 million bushels of corn and wheat to the Soviet Union during the 1974-75 marketing year are being held in abeyance. These contracts, reported today by the Department of Agriculture, involve about 91 million bushels of corn and 34 bushels of wheat. A portion of these contracts are expected to be delivered from other countries.

At the direction of the President, Secretary Simon has called the companies involved in the specific contracts, Continental Grain Company and Cook Company to request that they send representatives to Washington to meet with the President tomorrow.

Secretary Simon will be in Moscow next week at which time he will discuss the disposition of this matter with appropriate Soviet officials.

In addition, the President has directed that all major exporting companies be informed that for the time being, he expects that no large contracts for grain will be signed in the future without specific prior approval by the White House.

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WS-119

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

FOR IMMEDIATE RELEASE October 7, 1974

SECRETARY SIMON
TO ATTEND MOSCOW MEETING

Secretary of the Treasury William E. Simon has accepted an invitation from Soviet Minister of Foreign Trade Nikolai Patolichev to attend a meeting of the U.S.-U.S.S.R. Trade and Economic Council in Moscow.

He will leave Washington October 11 -- accompanied by Treasury Under Secretary for Monetary Affairs Jack F. Bennett, and Assistant Secretary of the Treasury Gerald F. Parsky -- and return October 16.

Secretary Simon and Foreign Trade Minister Patolichev are honorary directors of the Council, a bi-national organization of businessmen formed to promote expansion of trade and commerce between the United States and the Soviet Union.

Donald M. Kendall, chairman of Pepsico, and chairman of the American side of the Council, will be among 18 chief executive officers of major United States corporations attending the meeting.

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WS-121

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

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FOR IMMEDIATE RELEASE October 4, 1974

STATEMENT BY
THE HONORABLE JACK F. BENNETT
UNDER SECRETARY FOR MONETARY AFFAIRS
IMF/IBRD ANNUAL MEETINGS
PRESS CONFERENCE
SHERATON PARK HOTEL
WASHINGTON, D.C.

This annual meeting was a productive one, with a heavy schedule of both substantive and procedural questions before the Governors throughout the week.

One major theme running through the discussion was a general recognition of the destrictive effects of world inflation and the need to check that inflation. There was also discussion of the possible danger of overdoing demand reduction in the anti-inflation fight, with varying degrees of emphasis on whether that is a likely risk. Secretary Simon made clear the United States view that inflation overkill is not the present danger but that we obviously must keep a careful eye on global and national economic situations as they develop and be ready to act if the need occurs.

There was full acceptance of the need to strengthen international cooperation and consultation. A major accomplishment of the conference was the establishment of two important new committees, the Interim Committee and the Joint Ministerial Committee on the Transfer of Real Resources. These committees will greatly improve the effectiveness of our international structure by getting senior policy officials more closely involved.

Establishment of the Ministerial Committee for the Transfer of Real Resources is a positive step forward for alleviation of the economic strains besetting the less developed countries as a result of the cartelization of oil pricing. We are pleased that the Committee has adopted an interim work program which concentrates on the problems of the Most Seriously Affected countries, while, at the same time, directing the Executive Secretary to prepare a proposal for a long-term program for consideration when the Committee meets again in mid-January.

(OVER)

The new Interim Committee has also agreed to a work program. It has asked the IMF Executive Directors to consider the adequacy of existing private and official financing arrangements, and to report on possible additional needs. The Commitee also intends to discuss the adjustment process, quotas in the Fund, and amendments of the Fund Articles.

Additional countries have also adhered to the trade pledge which the C-20 proposed as a means of encouraging IMF member countries to avoid the self-defeating trade restrictions during this critical period. Germany and Japan are among the countries which have recently adhered.

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

13-wk 26-wk

6.385 Last week 7.439

— — — — —

6.698 To-day 7.364

— — — — —

Low since 2/25/74 7.081

— — —

high since 7.002 9/23/74

ASURY'S WEEKLY BILL AUCTIONS

of 13-week Treasury bills and for $ 2.0 billion
h series to be issued on October 10, 1974,
erve Banks today. The details are as follows:

k bills	:	26-week bills	
nuary 9, 1975	:	maturing April 10, 1975	
Equivalent Annual Rate	:	Price	Equivalent Annual Rate
6.349%	:	96.309 a/	7.301%
7.002%	:	96.243	7.431%
6.698% 1/	:	96.277	7.364% 1/

,000

e for the 13-week bills were allotted 46%.
e for the 26-week bills were allotted 47%.

ACCEPTED BY FEDERAL RESERVE DISTRICTS:

		Accepted	:	Applied For	Accepted
		$ 29,100,000	:	$ 26,015,000	$ 16,015,000
		2,125,560,000	:	2,625,080,000	1,599,080,000
		25,885,000	:	24,630,000	14,105,000
		37,125,000	:	54,660,000	34,600,000
Richmond	35,285,000	35,285,000	:	36,585,000	24,970,000
Atlanta	35,255,000	35,255,000	:	33,925,000	33,825,000
Chicago	196,635,000	196,615,000	:	202,195,000	131,685,000
St. Louis	34,795,000	33,795,000	:	35,170,000	20,170,000
Minneapolis	9,605,000	9,605,000	:	10,060,000	6,060,000
Kansas City	29,260,000	29,260,000	:	27,795,000	25,460,000
Dallas	29,655,000	28,655,000	:	21,920,000	18,920,000
San Francisco	113,960,000	113,960,000	:	200,275,000	75,125,000
TOTALS	$3,130,200,000	$2,700,100,000 b/		$3,298,310,000	$2,000,015,000 c/

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b/ Includes $361,930,000 noncompetitive tenders accepted at average price.
c/ Includes $321,625,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 6.91% for the 13-week bills, and 7.76% for the 26-week bills.

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1305

FOR RELEASE 6:30 P.M. October 7, 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 October 10, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 9, 1975		26-week bills maturing April 10, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.395	6.349%	96.309 a/	7.301%
Low	98.230	7.002%	96.243	7.431%
Average	98.307	6.698% 1/	96.277	7.364% 1/

a/ Excepting 1 tender of $385,000

Tenders at the low price for the 13-week bills were allotted 46%.
Tenders at the low price for the 26-week bills were allotted 47%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 39,100,000	$ 29,100,000	$ 26,015,000	$ 16,015,000
New York	2,543,640,000	2,125,560,000	2,625,080,000	1,599,080,000
Philadelphia	25,885,000	25,885,000	24,630,000	14,105,000
Cleveland	37,125,000	37,125,000	54,660,000	34,600,000
Richmond	35,285,000	35,285,000	36,585,000	24,970,000
Atlanta	35,255,000	35,255,000	33,925,000	33,825,000
Chicago	196,635,000	196,615,000	202,195,000	131,685,000
St. Louis	34,795,000	33,795,000	35,170,000	20,170,000
Minneapolis	9,605,000	9,605,000	10,060,000	6,060,000
Kansas City	29,260,000	29,260,000	27,795,000	25,460,000
Dallas	29,655,000	28,655,000	21,920,000	18,920,000
San Francisco	113,960,000	113,960,000	200,275,000	75,125,000
TOTALS	$3,130,200,000	$2,700,100,000 b/	$3,298,310,000	$2,000,015,000 c/

b/ Includes $361,930,000 noncompetitive tenders accepted at average price.

c/ Includes $321,625,000 noncompetitive tenders accepted at average price.

1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 6.91% for the 13-week bills, and 7.76% for the 26-week bills.

Department of the TREASURY NEWS
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20226
TELEPHONE 634-5248

1789

FOR IMMEDIATE RELEASE
Monday, October 7, 1974

FOR INFORMATION CALL
(202) 634-5248

GENERAL REVENUE SHARING DATA STUDY REPORT RELEASED TODAY

The results of an intensive 20-week study of the data used to allocate general revenue sharing funds were released by the Treasury Department's Office of Revenue Sharing today. The study found that the data are generally of good quality but that improvements can be made.

The study was initiated by the Office of Revenue Sharing as part of its continuing efforts to improve the accuracy and reliability of data used to allocate shared revenues to nearly 39,000 units of general government in the United States.

"Although the data used in our revenue sharing formulas are of good quality, we know that all data can be improved always," Graham W. Watt, Director of the Office of Revenue Sharing stated in releasing today's report. "We are constantly working with recipient governments and with the U. S. Bureau of the Census to assure equity in the distribution of funds using the best, most accurate data available," Watt said. "The study that has been concluded is part of that effort," he added.

The four-volume report released today was prepared at the Office of Revenue Sharing's request by a team of analysts from the Stanford Research Institute of Menlo Park, California, assisted by staff of Technology Management Incorporated, the Center for the Continuing Study of the California Economy, Human Resources Corporation and Westat Incorporated.

"The use of demographic, economic, and taxation data to determine the allocation amount for each of the 39,000 recipients is ... unprecedented," those involved in the research stated.

Shared revenues are allocated according to formulas set forth in the State and Local Fiscal Assistance Act of 1972, using data supplied by the U. S. Bureau of the Census on population, per capita income and adjusted taxes. Other data elements used in the calculations relate to personal income, state and local taxes, urbanized population, state individual income tax collections, Federal individual income tax liabilities and intergovernmental transfers.

The revenue sharing data study just completed was designed to meet the following objectives:

- To determine the relative effects on the equity of revenue sharing allocations of the varying degrees of currency, comprehensiveness, and accuracy of each of the data elements used in the allocation formulas.
- To determine the degree of inequity that would result in each of the next five years if present data sources were to be used, and the resulting impact on States and local jurisdictions that have significantly different characteristics.
- To identify alternative sources of data for each of those data elements which, if present sources were to be used, would result in significant inequity of allocations.
- To prepare and document a set of alternative data plans, conduct cost and benefit analyses of each, and make recommendations as to which plan should be followed.

The principal findings of the report are as follows:

- Although the general revenue sharing program appears to be satisfying many of the goals envisioned by Congress, a higher level of equity of allocations can be achieved through the use of more accurate and more current data in the computation of allocation amounts for the over 39,000 units of State and local government.
- Lack of currency in population and per capita income data is the major potential source of inequity since the true situation has a propensity to change rapidly from year to year and these two elements have not been updated since the program began.
- The year-to-year fluctuations in general revenue sharing allocations that recipient governments have so far experienced can be attributed mainly to the annual updating of adjusted taxes in the allocation formula, to keep pace with changing taxation patterns. Fluctuations are inherent in the general revenue sharing allocation procedure and will result whenever data are updated.

- Although equity of allocations will be increased by updating those population and per capita income data elements that are taken from the 1970 Census, when the timely data are used for the first time in general revenue sharing computations, the change in allocation will be significant for many recipients.

- Equity of allocations to the 50 States and the District of Columbia can be increased by adjusting at the State level for underenumeration, using the national age/sex/race underenumeration rates prepared by the Bureau of the Census. If the national rates are used to adjust for underenumeration at the county-area and local government levels, equity of allocations is likely to increase for larger jurisdictions and to decrease for many smaller jurisdictions.

- Improvments in data quality are needed for the population of Indian tribes and Alaskan native villages; failing a complete enumeration, the recommended technique to improve these data is the one under development by the Bureau of Indian Affairs and under analysis by the Bureau of the Census.

- Because of the complex and interactive nature of the general revenue sharing allocation procedure, individual improvements to individual data elements may contribute to inequity of allocations; updating county-area population without also updating population for the local governments in the county, for example, will cause inequity of allocations.

- If the population and per capita income model currently under development and test by the Bureau of the Census fulfills its promise, use of these data for Entitlement Periods 6 and 7 will increase the equity of allocations.

- Although the 1970 Census procedures produced data that were quite adequate for the general statistical purposes for which they were intended, 1970 Census data for the 27,000 local governments under 2,500 population--especially per capita income data where a 20-percent sample was used--are not suitable for general revenue sharing purposes. The problem of updating data for 39,000 units of government is especially severe.

- Longer range improvments to data quality required: (1) better intercensal estimating techniques for updating between censuses and better postcensal adjustment techniques for reducing the effects of underenumeration and underreporting, (2) mid-decade censuses (especially for small areas), (3) the development of valid indicators of need that are more compatible with the acquisition of reliable data, (4) increased reliance on nationwide and Statewide data standards and systems.

"The most careful consideration is being given to those improvements in the data that can be made with resources currently available," Graham Watt said in discussing the findings. "Some of the work that needs to be done will require additional authorization and appropriations of funds by Congress."

The general revenue sharing program is authorized by the State and Local Fiscal Assistance Act of 1972. Nearly 39,000 states, counties, cities, towns, townships, Indian tribes and Alaskan native villages have received more than $15.8 billion in shared revenues since the first checks were mailed, in December 1972. The law authorizes the distribution of $30.2 billion over a five-year period that ends with December 1976.

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FACT SHEET

A PROGRAM TO CONTROL INFLATION IN A HEALTHY AND GROWING ECONOMY

Contents

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A PROGRAM TO CONTROL INFLATION IN A HEALTHY AND GROWING ECONOMY

Although our economic system remains sound and strong, with its basic vitality intact, the economy is experiencing severe difficulties. Inflation is far too high. Too many people are having trouble finding employment. The financial markets are out of kilter. Interest rates are exorbitant. Housing is suffering badly. The productive capacity of the economy is expanding too slowly.

The origins of these problems are complex. Part of the problem grew out of several international shocks:

-- The disastrous world-wide drop in crop production in 1972, which sent food prices soaring.

-- Two international devaluations of the dollar, which made the United States a more attractive source for other countries to buy scarce materials.

-- The tripling of crude oil prices, which exerted a powerful and pervasive effect on our entire price structure.

Here at home, a long period of excessively stimulative policies created inflationary pressures that gradually and inexorably mounted in intensity. With that condition prevailing, the economy could not absorb the outside shocks; rather, those have now been built into the system, deepening and extending our problem.

Twice within the past decade, in 1967 and in 1971-72, we let an opportunity to regain price stability slip through our grasp. Thus inflation has gathered momentum and has become the chronic concern of producers and consumers alike. Indeed, today inflation is the primary cause of our recession fears.

-- Consumer confidence has been shaken, causing most families to hold back on spending, as clearly indicated by the lack of growth in the physical volume of retail sales for the past year and a half.

-- An "inflation premium" has been added to "true" interest rates, so that we now have mortgages at 9-10 percent and corporate bonds at 10-12 percent. This has warped our financial markets, including the stock market, which were structured for an economy with a relatively stable price level.

Another development that has created a serious economic imbalance is the fact that our civilian labor force has been expanding rapidly. For the size of our labor force, therefore, we are short on capital equipment. During this same period, the effectiveness of price controls in certain sectors -- e.g., steel, paper and other basic materials -- created specific bottlenecks that limited the production capacity of the entire economy. As a result, unemployment was higher than it otherwise would have been. Also, the dampening impact of price controls on profits held back new capital expansion programs in some of these vital industries.

Thus, because our problems are complex, it is clear that our program to deal with them must be comprehensive. It is also clear that the solution cannot be achieved quickly. There are no simple, instantaneous cures for our difficulties. Discipline and patience are the watchwords.

We must, therefore, have a strong policy of budgetary and monetary restraint to work down the rate of inflation. At the same time, we must provide the means for a healthy long-run growth in the capacity of the economy, correct the imbalances that have developed in recent years, and see to it that the burdens of this effort are shared on an equitable basis. Some further rise in unemployment appears probable, and we will take steps to deal with it. However, we can and will achieve our goals without a large increase in unemployment. There will be no economic depression in the United States.

AMENDING THE EMPLOYMENT ACT OF 1946

The Employment Act of 1946 makes it the policy of the Federal Government to "promote maximum employment, production and purchasing power." Although the words "purchasing power" have sometimes been interpreted as meaning price-level stability, it would nevertheless be helpful to clarify the term and make explicit in the Employment Act the goal of stability in the general price level. The American people have a right to receive from their government stronger assurance that policies will be followed to safeguard the purchasing power of their money in addition to policies that will provide abundant job opportunities and a rising level of living.

We, therefore, suggest that the section of the Act referred to above be amended to read as follows: ". . . for all those able, willing, and seeking to work, to promote maximum employment, maximum production, and stability of the general price level."

INTERNATIONAL COOPERATION

There is much that we and other nations can do to restore the health of the international economy. The economic problems of one nation, as well as its policies for dealing with them, affect other nations. Governments thus have the responsibility not only to maintain healthy economies but also to formulate policies in a way that complements, rather than disrupts, the constructive efforts of others.

This is particularly true for major economic powers such as the United States. Our policies to reduce inflation and restore satisfactory growth are intended to contribute to the strengthening of the international economy. We intend, further, to work with others so that:

-- We can ensure secure and reasonably priced goods, particularly food and fuel, for all nations.

-- We can minimize national policy conflicts or distortions that direct resources away from their most productive uses.

-- We can provide early warning of potential shifts in supply and demand so that nations can avoid potential disruptions.

-- We can try to harmonize national efforts in such areas as conservation, investment and balance of payments management.

A small delegation led by Ambassador Eberle departed today for Canada, Europe and Japan to discuss the policies described herein and to explore how we can better address and resolve common problems in a mutually supportive fashion.

A cornerstone of our international efforts is the multilateral trade negotiation scheduled to begin this fall. Passage of the Trade Reform Act will provide the United States with an opportunity to help improve the international trading order and to ensure that United States interests are well served therein. Without this bill, the United States will be regarded abroad as lacking the tools or the interest to build multilateral solutions to pressing economic problems. With it, the United States can play a leadership role in negotiating guidelines to reduce distortions of trade and investment that force workers or farmers in one nation to pay for the economic policies of another nation. We can also work toward a multilateral system of safeguards that provide for temporary -- but only temporary -- limits on imports when there is a need for certain industries to adjust smoothly to economic shifts.

FOOD AND FIBER

Food prices are of major concern in our fight against inflation. Because of weather problems and heavy demands from around the world, food prices are anticipated to increase at an annual rate of 10 percent or more over the next 18 months. Only by expanding farm production, improving productivity, and containing foreign demand can we hope to reduce the rate of increase.

Increased production offers our brightest hope for combating inflation, and we are committed to a program of all-out food production. There are presently no government restrictions on planting of wheat, feed grains, soybeans and cotton (excluding extra-long-staple cotton). To remove restrictions on rice production, we support pending legislation, but with a noninflationary target price. In addition, new legislation, which we support, has just been introduced to remove restrictions on the production of peanuts and extra-long-staple cotton.

Farmers must be assured of adequate supplies of fertilizers and fuel. The Secretary of Agriculture has been directed to work with the interagency Fertilizer Task Force to establish a reporting system. Fuel will be allocated if necessary. Authority will be sought to allocate fertilizer, if that is needed. We will work with fertilizer companies to initiate voluntary efforts to reduce nonessential uses of fertilizer.

Over the past weekend the Federal Government initiated a voluntary program to monitor grain exports. We can and shall have adequate supplies at home, and through cooperation meet the needs of our trading partners abroad. A committee of the Economic Policy Board will be responsible for determining policy under this program. In addition, in order to better allocate our supplies for export, the President has asked that a provision be added to Public Law 480, under which we ship food to needy countries, to waive certain of the restrictions on shipments under that Act on national interest or humanitarian grounds.

The U. S. Department of Agriculture and the National Commission on Productivity have been directed to help reduce the cost of food by improving efficiency in the agricultural sector. The Department and the Council on Wage and Price Stability will review marketing orders to insure that they do not reduce food supplies. Government regulations will be examined to elimiate those that interfere with productivity in the food processing and distribution industries.

Upward pressure on U. S. food prices will be reduced by helping developing nations to become more self-sufficient. We will share our advanced agricultural technology and aid in the construction of new fertilizer plants. We will support food reserve and emergency food aid programs. We are also taking steps to assure that the burden of the current tight feed grain situation is equitably distributed.

While increased food supplies are the only effective weapon against higher food prices in the long run, it takes time to grow those supplies. We cannot expect to see immediate benefits from the initiatives outlined here. We can, however, be confident that policies to maximize food and fiber production and to restrain food price increases are being pursued vigorously.

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ENERGY

I. General Statement

Expensive petroleum from insecure foreign sources jeopardizes national security, increases worldwide inflation and places strains on the international financial system. Therefore, in order to reduce United States dependence upon foreign supplies of energy, the President has decided upon the following program to meet the current energy challenge.

The immediate objective is to reduce oil consumption one million barrels per day by the end of 1975 below what it would have otherwise been without affecting industrial output. This energy program calls for both mandatory and voluntary action.

If immediate reductions are not achieved through the energy program presented today, the President will seek more stringent means to insure that United States dependence is reduced.

II. Develop a new conservation policy

During the embargo last winter, Americans responded to energy conservation voluntarily. Now, though the crisis is less obvious, Americans must continue to apply voluntary restraint in the use of energy. As part of our continuing effort to conserve energy, the individual American and the American Industry and Government must think and act conservation, of not only energy but also resources and commodities that are used in our day to day life.

III. Specific Program

A. Submit Legislation to Require Use of Coal and Nuclear for New Electric Power Generation and Conversion for Existing Plants

The Administration's policy is to eliminate oil and natural gas fired plants from the Nation's mainland baseloaded electric capacity where it is feasible to convert to coal or nuclear without endangering public health. A meeting of representatives from the utilities, the coal and nuclear industries, state regulatory commissions and the relevant Federal agencies will be called by FEA to establish within 90 days a schedule for phasing out enough oil-fired plants to save 1.0 million barrels per day and to provide a list of actions required to ensure that the schedule is met. Any legislation necessary to accomplish this goal will be submitted afterwards.

Relevant considerations inherent in such a program are as follows:

-- Potential for Conversion

Existing oil and gas plants that are convertible	.75 MM b/d
Future plants (before 1980) scheduled for oil or gas (30,000 MW)	1.0 MM b/d
Total	1.75 MM b/d
Goal (allowing for cases where conversions will not be attempted)	1.0 MM b/d

-- Costs

A. Because future plants are in varying stages of planning and development, total cost of one million barrels per day conversion is not known.

B. However, report from utilities included in "existing plants" category above indicates that 750 thousand b/d conversion costs total $106 million. It should be noted that these costs are considerably lower than what it would cost to continue burning oil at current world prices.

--Illustrative Comparison of Cost of Using Coal vs. Oil (based on 1 million barrels/day)

1 Cost of coal = $ 6 million (at $25 ton)

2 Cost of residual = $12.0 million/day (at $12.00 barrel)

3 Savings = $6.3 million/day or $2.2 billion/year

-- There are approximately 500 coal fired units that will not meet state regulations as of June of next year. However, most of these could meet the primary air quality standards (i.e. standards to protect human health). These plants use 185 million tons (1/3 of the nation's total coal consumption) of coal per year. This program would allow these plants to continue to burn coal, thus easing additional pressure on oil supplies.

B. Defense Production Act

The Defense Production Act will be used selectively to ensure sufficient supplies of scarce materials needed for energy development projects. This Act was recently invoked to give priority to the delivery of supplies to expedite construction of the Trans-Alaskan pipeline terminal facilities.

C. Automobile Industry must Develop Program for Gasoline Savings

During the past two sessions of Congress, legislation to require fuel saving on new automobiles has been considered. Pursuant to the Energy Supply and Environmental Coordination Act of 1974 a specific study of one aspect of this question is now underway. Unfortunately, the sum total of legislative requirements on automobile manufacturers has often caused confusion, additional cost to the consumer and unworkable deadlines. Therefore, the President is requesting the major automobile manufacturers to submit a five-year schedule of their plans to produce more efficient automobiles. Goals on efficiency for industry to meet will then be established. If necessary, the President will present legislation to the Congress for consideration.

D. Industry must Conduct Energy Audit and Develop Savings Programs

During the last six months, it has been demonstrated time and again that individual companies can cut energy usage dramatically. Nationwide, the potential savings for all industries under a strict conservation program can be significant. The President has requested the Secretary of Commerce to develop energy use guidelines which will suggest ways for industry to use energy more efficiently. The Secretary will also report on energy savings in specific industries, and communicate that information to businessmen across the nation. In addition, the Commerce Department will monitor to determine areas of energy misuse within industry, and suggest alternatives to stop such waste.

E. More rigid compliance with the maximum speed limit of 55 miles per hour; suggest new traffic control measures

The 55 mile speed limit set by Congress earlier this year has saved at least 250,000 b/d of petroleum. The Administration will emphasize the importance of rigid enforcement of this limit by State and local law enforcement agencies. In addition, the President is directing the Secretary of Transportation to work with State officials to suggest additional traffic control measures for conserving gasoline.

F. Further Conservation within Government

The effects of energy conservation efforts within government has been dramatic. Most agencies have far exceeded their goals. However, governmental conservation programs will be made stricter, and enforced more vigorously. As a top priority, a review will be made of all governmentally imposed impediments to energy conservation, in so far as they adversely affect the day-to-day programs of both the government and the private industry operations.

Specific actions mandated and underway, or to be taken :

-- Thermostats lowered to 68 degrees in the winter and raised to 78 degrees in the summer.

-- Lighting reduced in public buildings.

-- Speed limits on government vehicles reduced.

-- Cut backs ordered in the number of trips taken, including miles driven and miles flown.

-- Car pooling locators to be set up within metropolitan government bases.

-- Parking spaces to be allocated on a priority basis to car poolers.

-- Smaller automobiles to be purchased to replace larger cars

-- Decorative lighting to be reduced.

-- Outside lighting to be reduced.

-- Voluntary Conservation Actions:

G. Reduce energy consumption in commercial buildings

The commercial sector of the economy accounts for almost 15% of our total energy use. Studies have shown that commercial energy requirements can be significantly reduced by improved efficiency measures, and by taking positive steps to reduce lighting, heating and air conditioning. A 10% reduction in this sector can save the equivalent of approximately 500,000 barrels of oil per day.

H. Reduce energy consumption in residences

Residential consumption of energy accounts for approximately 20% of total energy use. Prudent use of heating and air conditioning, reduced usage of hot water, lighting and appliances, and improved home insulation has the potential for saving the equivalent of well over one million barrels of oil per day. These steps would also, of course significantly reduce energy costs for the consumer.

I. Reduce gasoline consumption

About one third of all automobile travel consists of commuting to and from work. If the average number of passengers per commuter auto were to increase by one, a reduction in gasoline usage of well over 500,000 barrels per day could be achieved. The resulting lower consumption would also reduce the commuters out-of-pocket costs for high priced gasoline.

Regarding specific voluntary actions relating to (a), (b) and (c), the Administration will:

-- Encourage everyone to lower thermostats in the home in the winter and raise them in the summer.

-- Ask architects to design buildings with energy conservation in mind.

-- Ask motorists to keep cars tuned and maintain proper tire pressure.

-- Ask everyone to reduce temperature settings on hot water heaters.

-- Ask everyone to turn off pilot lights on furnaces in the summer.

-- Encourage everyone to use cold water for laundry.

-- Encourage the use of public transportation.

-- Urge an increase in the use of car pools.

-- Urge reduction in use of nonessential home appliances.

-- Urge reduced use of stoves, refrigerators, televisions, electric lights, washing machines.

-- Encourage home owners to insulate and install storm windows.

-- Urge turning off outside gas lights.

-- Urge measures to increase the load factor on airline flights.

J. Request state and federal regulatory authorities to eliminate rate schedules which encourage excessive energy consumption

The utility industry, under both state and federal regulations, have often developed rate structures that encourage increased energy consumption. Regulatory authorities should seek to design rate structures that encourage maximum energy conservation, promote use of generation capacity in off-peak periods, and only charge individual categories of users the cost of the power they actually consume.

K. Natural Gas Supply Act

Natural gas is an invaluable source of clean, environmentally sound energy. For fifteen years, the Federal Power Commission has controlled and kept low its wellhead price, and thus reduced incentives to the development of new domestic supplies. In 1957, new discoveries of natural gas totalled approximately 22 trillion cubic feet. By 1972 this had fallen to less than three trillion cubic feet. In 1955 the U. S. had a 22.5 year supply of gas reserves, and in 1972 only 10.7 years.

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The nation is now importing foreign liquefied gas (LNG) at prices three times controlled domestic price. The nation faces continued and increasing rates of curtailment of gas being supplied to current users, including gas for agricultural production.

The only real solution to the supply problem lies in deregulation of new gas, so as to stimulate production.

Legislation to achieve this result has long been stalled in the Congress. This logjam must be broken, so that domestic gas reserves may be identified and brought into production as quickly as possible.

L. <u>Naval Petroleum Reserves - permit maximum production from reserve #1 (Elk Hills) and implement full scale exploration and development of production capability of reserve #4 (Alaska)</u>

At the present time, two Naval Petroleum Reserves, Elk Hills, California (NPR #1), and NPR #4 in Alaska, could, if fully developed, provide significant production capability. Elk Hills is about 50% developed but needs further development to place it in a state of readiness. It is estimated that production capability of 160,000 barrels per day could be achieved within two months, with the long term maximum efficient rate of production at about 267,000 barrels per day. The estimated potential of NPR #1 runs as high as 1.7 billion barrels. The vast tract in Alaska, NPR #4, is largely unexplored but offers a significant potential for development. Recoverable reserves are estimated to be as much as 30 billion barrels.

The statutory authority for the naval petroleum reserves, and oil shale is included in Chapter 641, Title 10, U.S. Code. Key provisions in the authority provide that the reserves shall be used and operated for:

(1) The protection, conservation, maintenance and testing of the reserves.

(2) The production of petroleum, gas, oil shale or products thereof, whenever and to the extent the Secretary of the Navy, with the approval of the President, finds that it is needed for national defense and production is authorized by a joint resolution of Congress.

The President is directing the Secretaries of Defense, Navy and Interior, within the next 90 days, to develop proposals (including any needed legislation) directed toward the exploration and development of NPR #4 as rapidly as possible.

M. Clean Air Act

The Clean Air Act Amendments of 1970 represent a landmark in our progress toward environmental protection, and definite progress is being made in cleaning up the Nation's air.

The Act describes very stringent guidelines for compliance by mobile and stationary sources. Many of these goals are achievable as drafted. In some cases, however, more flexibility is needed to achieve the objectives of the Act and to allow use of coal, the nation's most abundant domestic energy source. The amendments that have been transmitted to the Congress by the Administration would provide this needed flexibility to effectively respond to the nation's energy problems without jeopardizing the Act's health related requirements. Passage of all of these amendments will not diminish continuing efforts for a cleaner environment.

N. Surface Mining

Coal is the nation's most abundant and available energy resource. The Administration has proposed and long supported surface mining legislation that would allow continued and accelerated development of domestic coal reserves with appropriate protection of environment values.

Severe problems still remain with some of the provisions of the legislation which has passed both houses of the Congress. Its enactment as now drafted could involve not only serious production losses but inflationary cost impacts throughout the entire economy.

Secretary Morton and his staff have been working closely with the committee to resolve the most important of these problems, including surface owner protection provisions, funding absolute prohibitions of mining in certain areas, unnecessarily broad statements of purposes, and provisions for multiple litigation that could delay or halt ongoing production efforts.

O. Nuclear Plant Licensing Bill

The 9-10 years now required to bring nuclear power plants on line must be reduced. Towards this end, Congress should pass the Nuclear Plant Licensing Bill which will expedite licensing and construction power costs, and accelerate U.S. energy self-sufficiency.

P. Windfall Profits Tax

Since 1973, the prices that may be charged for domestic crude oil production have been strictly controlled by the Cost of Living Council and the Federal Energy Administration (formerly the Federal Energy Office).

Various measures are available to stimulate production from our existing fields by adjusting these controls. Such adjustments are needed on a priority basis, but they could generate sudden profit increases for companies producing oil.

The Administration has proposed a windfall profits tax that would cushion this shock and reduce such profits, and this requires prompt action by the Congress. Expeditious enactment of this tax measure is necessary to maximize production without undue enrichment of the industry.

Q. Deepwater Port Facilities Act

Pending legislation would authorize the Federal Government to grant permits for the construction and operation of offshore oil terminal facilities. Such facilities would allow imported oil to be transported more safely and economically on very large crude carriers, and reduce tanker traffic in the nation's already overcrowded harbors. It would encourage the construction of domestic refineries and thus lessen U.S. dependence on imported products from foreign refineries. An extensive environmental impact statement already prepared indicates that the amount of oil spilled in the nation's harbors and coastal regions will be reduced by these facilities.

R. Energy Research and Development Administration, ERDA

The President is urging to complete consideration of legislation to create ERDA before the recess. ERDA's mission will be to develop technologies for efficiently using fossil, nuclear and advanced energy sources to meet growing needs and in a manner consistent with sound environmental and safety practices. The agency will have responsibility for policy formulation, strategy development, planning, management, conduct of the energy R&D and for working with industry to assure that promising new technologies can be developed and applied.

S. Accelerate Oil Leasing of Federal Lands on the Outer Continental Shelf

Prospects for large, new discoveries of onshore oil and gas deposits in the lower 48 states are small. For this reason, leasing of the Federal OCS must be greatly accelerated with a target of ten million acres annually in 1975. This is an amount 5-times larger than the 2 million acres expected to be leased during 1974; and 1974 in turn is twice the acreage leased during 1973. To sustain this schedule it will be necessary to lease frontier areas off Alaska, California and the Atlantic coast. The accelerated leasing program will comply with all provisions of the National Environmental Policy Act, and every step will be taken to insure that development will be carried out under environmentally sound conditions. The President has directed the Secretary of Interior to meet with coastal state officials to establish the program needed to rapidly develop Outer Continental Shelf resources.

T. Incentives to Secondary and Tertiary Production

Under current technology, 65 billion barrels of oil would be left in the ground in known reservoirs. Some existing price controls have a tendency to discourage increased production from existing oil fields, especially declining fields. The President has directed the adjustment of these controls so as to maximize incentives to use secondary and tertiary production methods in such cases.

U. Coal Leasing of Federal Lands

The government intends to complete steps to resume leasing of federal lands in 1975 to develop the vast coal resources underlying these lands. Increased world oil prices have forced the nation to look to alternative supplies of energy. The nation's most plentiful resource is coal, with over 1.5 trillion tons beneath the surface of America; public lands alone contain 200 billion tons. The President has directed Secretary of the Interior Rogers C.B. Morton to complete the requisite environmental impact statements and move to establish a program for leasing coal on Federal lands in 1975 that will insure the availability of this resource when needed for immediate production.

V. Leasing Public Lands for Oil Shale and Geothermal Development

Early this year, the government leased 18 tracts in known geothermal areas. Ten of these tracts, located in the Geysers Field of Northern California, can supplement efforts on private lands that have already proven to be of commercial value. The remaining tracts, in the Imperial Valley of California, offer a testing opportunity--tapping hot, mineralized water for commercial use as an energy source.

Early this year, four oil shale tracts were leased in Colorado and Utah which are expected to be of commercial value. Developmental work, already underway, will assess the economic and environmental feasibility of exploiting this vast oil shale resource--estimated as containing 400 billion barrels of oil in the western United States.

The Administration will immediately re-evaluate the government's oil shale and geothermal leasing programs with a view toward encouraging more rapid development of these resources.

W. Completion of Plans to Bring Alaskan Gas to Market

Exploration and development of natural gas in Alaska is moving very rapidly. By next year, the basic information will be available to determine whether Alaskan gas should be brought to the U. S. via a pipeline across Alaska or a pipeline across Alaska and through Canada. In response to a congressional mandate, environmental and economic analysis for each alternative is under way, and should be completed early next year. With the completion of these studies and plans, the President will determine whether and what legislation is needed to expedite access to this large source of environmentally clean energy.

INCREASING THE PRODUCTIVE CAPACITY OF THE ECONOMY

In the long run, the answer to inflation is an economy with sufficient productive capacity to meet the demands of its people. This growth can be accomplished in three interrelated ways: First, through a better-trained, better-motivated and healthier work force. Second, through a larger and more productive stock of plant and equipment. Third, through an increase in the operational efficiency of workers and their equipment -- in short, by working smarter.

Increasing Investment. To accelerate the growth of capital investment, the President is calling for an increase in and a restructuring of the investment tax credit. The credit will be increased from 7 to 10 percent; for utilities the increase is from 4 to 10 percent. The restructuring of the credit will eliminate existing restrictions that now limit the incentive value of the credit and that discriminate unfairly between types of taxpayers and investments that qualify for the credit. (See Tax Proposals.)

Strengthening the Capital Markets. The financial markets are the centerpiece of our economic system. Healthy and freely functioning markets to bring together savers and investors are crucial to the expansion of the nation's plant and equipment, which in turn is essential to the creation of new jobs and also to the growth of productivity that permits a rise in our standard of living. Every American has a vital stake in the vitality of our financial markets.

The most important thing that we can do to restore the glow of health to our capital markets is to get control of inflation. A rapidly rising price level is the bitter enemy of savings and investment.

As part of this anti-inflation effort, we will take a step that will also have, of itself, a direct beneficial impact on our financial markets. That step is to move toward a balanced budget, and to end the drain that past deficits have made on our capital markets. This would mean that more of the savings generated by our private economy could be used for new productive investment.

And in this context, we must also take account of the demands of the off-budget agencies of the Federal Government, and Federal credit guarantees (for housing, student loans, etc.)

as well.

We must create a better environment in the financial markets for equity capital. In recent years, corporations have been unable to raise adequate new equity capital. They have been adding heavily to their debt, however, and as a result the capital structure of business has been getting out of balance, with too much debt and too little equity. This is especially true for our electric utilities.

As a contribution toward the solution to this problem and also to improve the health of our financial markets and to encourage investment, the President has proposed tax legislation to provide that dividends paid on qualified preferred stock be allowed as a deduction to the paying corporation.

The Administration also supports strongly the Financial Institutions Act of 1973 (see Thrift Institutions), and the securities reform legislation pending in Congress that would authorize the Securities and Exchange Commission to establish a national market system for securities transactions. We are also working with the Congress to revise the treatment of capital gains and losses in such a way as to increase efficiency in the flow of capital.

In addition, we support pending legislation to eliminate the withholding tax on interest and dividend income accruing to foreign holders of U.S. securities. Elimination of this would stimulate a larger flow of funds to capital markets in the United States.

CREDIT ALLOCATION

An issue that has been widely debated in recent years is whether or not the Federal Government should intervene directly into the financial markets to require banks and other credit institutions to make more loans for socially desirable purposes and less for "unproductive" purposes. In our view, allocation of credit by the Federal Government would be highly undesirable. There is no basis for believing that the Government could in fact allocate credit in a way that was acceptable to the American people.

However, the Federal Advisory Council, a statutory body that advises the Federal Reserve Board, has suggested constructive guidelines for credit extension by the banks on a voluntary basis. The Federal Reserve Board has endorsed these guidelines, and expects compliance by the banks.

ANTITRUST

The elimination of outmoded government regulation must of course be accompanied by dedicated and vigorous enforcement of the antitrust laws. Violation of these laws is a serious crime. Only through maintenance of vigorous competition can we realize the benefits of less regulation. Our efforts must be strengthened. We will focus particularly on more effective enforcement of the laws against price fixing and bid rigging. These types of activities which increase prices substantially cannot be permitted.

Illegal fee schedules in the professions and in real estate closings must also be eliminated. Such conduct will be prosecuted to the full extent of the law.

To support this intensified enforcement effort, the President has asked for legislative enactments in two areas. First, we must increase the penalties associated with antitrust violations -- for corporations the maximum fine should be increased from $50,000 to $1 million while for individuals it should be increased from $50,000 to $100,000. Second, we must strengthen the investigation powers of the Antitrust Division of the Department of Justice. This can be accomplished by speedy passage of the Administration's legislation now pending before the Congress that would amend the Antitrust Civil Process Act, and to provide laws which would give enforcement agencies greater capability to detect bid rigging.

GOVERNMENT REGULATION

The Federal Government imposes many hidden and inflationary costs on our economy. Laws and regulations have been put into effect with little concern for the underlying costs. These billions of dollars of increased costs are passed on to American consumers in the form of higher prices. A broad program will be undertaken to attack this problem and to identify opportunities for change. These proposals could save billions of dollars, which could then be devoted to more productive investments. They would also reduce the visibility and impact of government on the American people.

<u>The Council on Wage and Price Stability</u> will act as a continuing watchdog on the inflationary actions of the Executive

Departments and agencies to uncover laws and regulations that raise costs and stifle economic flexibility and initiative. We need to eliminate or alter many restrictive practices of the Federal Government in areas such as transportation, labor and agriculture -- practices that unnecessarily increase the overall costs of goods and services. Both the Conference on Inflation and the Joint Economic Committee recommendations support this approach. The Council will devote a very substantial part of its effort to this function.

National Commission on Regulatory Reform. The independent regulatory commissions, through their broad policy determinations and individual case decisions, create a body of regulatory policy separate and apart from that of the rest of the Executive Branch. The President will submit legislation to create a National Commission on Regulatory Reform to examine the policies, practices and procedures of these Agencies and develop appropriate legislative and administrative recommendations. Its membership should include Executive Branch, Congressional, and private sector representation.

Inflation and Job Impact Statement. The President will require all executive agencies to develop Inflation Impact Statements to assess the inflationary consequences of major legislation or regulations prior to the agency taking action. Such an impact statement would sensitize government decision-makers to the broader consequences of government activities, and to the tradeoff of costs versus benefits in government programs.

The President recommends that the Congress set a similar requirement for itself. The proposed Commission on Regulatory Reform should examine the feasibility of legislation requiring independent regulatory agencies to do a similar preanalysis of their actions.

Speedier Adjudication and Proceedings. New approaches are required to eliminate the interminable delays often created before regulatory matters are resolved. The courts and the independent regulatories are urged to develop new approaches to assure prompt resolution of pending matters. The Executive Branch will undertake a similar effort.

States and Local Governments. Other governmental units are urged to undertake a similar broad program to bring under control the inflationary influence of government at all levels.

<u>Enactment of Pending Legislation.</u> There are several important pieces of legislation now pending before Congress, whose enactment would help to reduce the burdens now imposed on the economy by government activities. These include the Surface Transportation Act, the Financial Institutions Act, Trade Reform, and the creation of a Paper Work Commission to review the administrative "bookkeeping" requirements levied by government on the private sector. Congress is urged to move swiftly to enact these measures.

COUNCIL ON WAGE AND PRICE STABILITY

The Council on Wage and Price Stability will devote primary emphasis to two functions: First, it will act as a watchdog on the actions of the Executive Departments and Agencies of the Government that raise costs and impede competition. It will recommend needed changes in administrative procedures, and changes in legislation where necessary, to correct these practices.

Second, it will monitor wage and price movements in the private sector. In general, the Council will carry out this function by seeking the full, voluntary cooperation of labor, industry, and the public to solve problems of mutual concern. The Council will cooperate fully with the President's new Labor-Management Committee. In addition, the Council has the power to conduct public hearings and intends to use it to explore the justification for price and wage increases, as appropriate.

Among other duties the Council on Wage and Price Stability will work with the Cabinet Committee on Food and the Interagency Fertilizer Task Force. Also, in dealing with specific sectors in which price pressures are particularly virulent, efforts will have to be concentrated on food, energy, construction, medical care and primary industrial capacity.

The Council, however, will not be a wage and price control agency. Controls do not stop inflation; they did not do so the last time around nor even in World War II when prices increased despite severe rationing.

Indeed, controls can make inflation worse. They often create shortages, hamper increased production, stifle growth and cause unemployment. Ultimately, they can cause the fixer and black marketeer to flourish while decent citizens confront empty shelves and long waiting lines.

NATIONAL COMMISSION ON PRODUCTIVITY

Increased productivity -- working smarter to increase the total economic output of our work force and equipment -- is a vital component of the drive to increase production. This long-term goal will be pursued by a revitalized National

Commission on Productivity. The Commission will also extend and deepen the drive to increase productivity in government -- Federal, state and local. It is important that government set a good example of leadership in this effort, and we may be sure that there is no shortage of opportunity for productivity in the operations of government. The rest of its effort will be in the private sector, with primary emphasis on meaningful programs at the plant level. Special attention will be devoted to food, transportation, construction and health-services.

EMPLOYMENT ASSISTANCE

Increases in unemployment have raised the Nation's unemployment rate to 5.8 percent in September. During this period of high inflation and unemployment, there is a need for Federal standby authority with minimal inflationary impact, which will help alleviate the impact of unemployment should unemployment rates rise. Such action is necessary to help alleviate unemployment problems in areas most affected and to assure that the impact of inflation does not unduly burden those workers least able to bear the costs.

The National Employment Assistance Act of 1974 would respond to these needs by authorizing, during the next 18-month period two programs which would begin to operate should the national unemployment rate average 6 percent or more for 3 months:

(1) A temporary program of income replacement known as the Special Unemployment Assistance Program for experienced unemployed workers in areas of high unemployment who have exhausted all other unemployment compensation or who are not eligible for such compensation; and

(2) A program of employment projects for these same areas, known as the Community Improvement Program.

While the primary purpose of the two programs is to alleviate the hardships of unemployment upon individuals, it will also alleviate the adverse impact on those local economies hardest hit by unemployment.

The unemployment assistance benefits serve to cushion the effects of protracted unemployment by providing additional income replacement to workers who have either exhausted their regular unemployment compensation benefits or to individuals with a demonstrated labor force attachment not otherwise eligible for unemployment insurance benefits. Not only does this replace lost income, but it provides workers with the time and opportunity to look for work consistent with their skills and experience.

The table below shows funds and services now available under Unemployment Compensation laws and the Comprehensive Employment and Training Act (CETA). It also indicates how much would become available over a twelve month period for current unemployment programs, and for the two new proposed programs, at average national unemployment levels of 6 percent and 6.5 percent. Title II of the National Employment Assistance Act would make a further $1 billion available if national unemployment exceeded 7 percent on average for three months or more.

	5.8%	6%	6.5%
CETA Public Service Jobs			
Funds:...............	$1,015 mil.	$1,015 mil.	$1,015 mil.
Jobs:................	170,000	170,000	170,000
CETA Other Training and Employment			
Funds:...............	$1,700 mil.	$1,700 mil.	$1,700 mil.
Man Years:...........	380,000	380,000	380,000
Unemployment Benefits (current law)			
Payments:............	$7,775 mil.	$8,145 mil.	$9,065 mil.
Beneficiaries:.......	7.9 mil.	8.2 mil.	9.2 mil.
		(annual rate)	
National Employment Assistance Act			
Special Unemployment Benefits			
Payments............	----	$2,120 mil.	$2,550 mil.
Beneficiaries.......	----	2.73 mil.	3.31 mil.
UI Exhaustees.....	----	(.83 mil.)	(1.05 mil.)
Previously Ineligible...........	----	(1.9 mil.)	(2.26 mil.)
Community Improvement Projects			
Funds................	----	$500 mil.	$1,250 mil.
Man Years of Employment..............	----	83,000	208,000

The initiation of temporary projects by State and local governments is perhaps the least inflationary way of providing jobs for unemployed workers. Jobs provided by these projects help to cushion the loss of income due to unemployment, while enabling State and local governments to provide their citizens with a socially useful product.

Because projects under this program will be generated in and geared to areas with high unemployment in which there exists a substantial amount of available manpower, there should be little or no adverse impact on the regular labor market. There is a limit of $7,000 a year for jobs authorized by this program and therefore the average wages will be considerably less than those earned in the private sector. Most workers will obtain private jobs as the economy grows.

The added cost of Community Improvement Projects may be offset somewhat by reduced demand for food stamps and welfare payments, and by some increase in tax receipts from employees in these projects.

Basic funding provisions of the National Employment Assistance Act. Funds for both the Special Unemployment Assistance Program and the Community Improvement Program become available when the national unemployment rate reaches 6.0 percent on average for three consecutive months. For the Special Unemployment Assistance Program, such funds as are necessary are authorized if unemployment is above this level. For Community Improvement Program, successive increments of funds are authorized if the national unemployment level reaches, for three consecutive months an average of:

-- 6.0 percent -- $500 million dollars authorized;
-- 6.5 percent -- another $750 million dollars authorized; and
-- 7.0 percent -- an additional one billion dollars authorized.

When the national unemployment rate recedes below these respective levels for three consecutive months on average, Federal funds for new projects will cease.

Eighty percent of the available funds for Community Improvement Projects will be distributed by formula among eligible applicants based on (1) the relative number of unemployed residing in areas of substantial unemployment within their jurisdictions, and (2) the severity of unemployment; 20 percent would be expended at the discretion of the Secretary, principally to finance projects in areas which become eligible after the formula distribution is made.

The local labor market area--and balance of State--unemployment rates determine the communities in which both programs will be operating. Both programs are directed to those areas in which unemployment is highest. Both programs come into effect in a labor market area, with a population of 250,000 or more, when it has an unemployment rate equal to or in excess of 6.5 percent for three months on average. The balance of each State not included in such areas will constitute a single area in which the programs will become effective subject to the same unemployment rate criterion. When the local unemployment level recedes below 6.5 percent on average for three consecutive months no new individuals become eligible and no new projects may be started.

Special Unemployment Assistance Program. This new temporary unemployment assistance program will be separate from but supplemental to the existing Federal-State Unemployment Insurance (UI) System, and is designed to extend coverage to experienced persons in the labor force who have exhausted their UI benefits or are otherwise ineligible for such benefits. The program would be operated through agreements with the States. All experienced members of the workforce will be eligible for benefits as follows:

- They must have last worked in a labor market area (or balance of State area) with substantial unemployment.
- Benefits will be governed by benefit provisions of each State UI law.
- Individuals who had exhausted their benefits under State UI programs will be eligible for a maximum of 13 weeks benefits.
- Individuals who were not previously eligible for State UI benefits will be eligible for a maximum of 26 weeks provided that they have attachment to labor force as required by the relevant State UI law.

-- Benefits for UI ineligibles will generally be the amount that would be payable as computed under State law if all work was performed for covered employers.

-- No new beneficiaries would be eligible after June 30, 1976.

Community Improvement Program.

-- New program is structured so that as the national employment rate rises, more money is available for community improvement projects.

-- Projects are limited to areas eligible for the Special Unemployment Assistance Program.

-- Eligible applicants are prime sponsors under the Comprehensive Employment and Training Act, in areas that qualify.

-- Projects may be with State or local government agencies.

-- Each Community Improvement project is limited to 6 months duration.

-- Not more than 10 percent of a sponsor's funds may be used for administrative costs, supplies, material, and equipment.

-- Individuals eligible for employment on these projects are those who have exhausted their benefits under the Special Unemployment Assistance Program.

-- Wages paid project employees must be at least the minimum wage under the Fair Labor Standards Act, or the State or local minimum wage, whichever is higher; however, in no case may the wage exceed an annual rate of $7,000. State or local governments may not supplement wages with their own funds.

-- Prohibitions against political activities and discrimination apply to the program.

The Community Improvement Program will provide funding for projects such as conservation, maintenance or restoration of natural resources, community beautification, anti-pollution and environmental quality efforts, economic development and the improvement and expansion of health, education, and recreation services and such other services which contribute to the community.

INTERIM HOUSING AID

President Ford proposed extending, on a temporary basis, the advantages offered by the Government National Mortgage Association (GNMA or Ginnie Mae) to mortgages which are not Federal Housing Administration (FHA) insured or Veterans Administration (VA) guaranteed -- so called "conventional" mortgages. Three billion dollars -- an amount sufficient to finance about 100,000 new homes -- would be available. The proposed program will be in addition to the over $19 billion of Federal funds that have been made available over the past year for the purchase of mortgages to supplement the buying power of hard-pressed thrift Institutions.

GNMA currently aids in creating a supply of credit for mortgages on new homes insured by FHA or guaranteed by VA -- about 20% of the total mortgages -- at reasonable interest rates by

- -- assuring, through commitments in advance, purchase of mortgages at a pre-determined price.
- -- subsidizing market interest rates to lower levels in the event interest rates do not fall after commitments are made.
- -- guaranteeing, on a "full faith and credit basis," obligations secured by such mortgages.

Housing Industry Situation Critical. Over the past 22 months

- -- housing starts have dropped from 2.51 million units to 1.13 million units.
- -- unemployment in the construction industry is 12.4 percent and climbing, with almost a half million construction workers now unemployed.
- -- many homebuilders are in financial difficulty.

President Ford's Proposal for Interim Housing Aid

By making conventional mortgages on new homes eligible for purchase by GNMA, builders and homebuyers will be assisted where home mortgage credit is scarce or non-existent.

1. Level of Commitments. Aggregate amount of commitments and mortgages which GNMA could hold at any time, i.e. have purchased and not resold, could not exceed $7.75 billion. A program of $3 billion of mortgage commitments, or enough to finance about 100,000 new homes, is contemplated. The precise amount would be determined on the basis of market conditions at the time the new authority becomes law, and additional programs would be activated as circumstances require.

2. Mortgage Amounts, Discounts, Interest Rates, and Downpayment Requirements. Subject to Congressional approval the program would provide for a maximum mortgage amount of $45,000. The effective interest rate would be determined on the basis of market conditions at the time the program went into effect and would be somewhat above the rate offered on GNMA tandem programs for FHA/VA mortgages -- presently 8 3/4%. Twenty percent downpayments would be required with an exception for down to 5% downpayments if the additional mortgage amount is covered by a qualified private mortgage insurance contract so as to minimize cost of mortgagor defaults.

3. GNMA Disposition of Conventional Mortgages. Following the precedent of existing law, GNMA could, depending upon market or other factors, sell mortgages to the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC), sell mortgages or commitments with a provision for pooling by FNMA or FHLMC or other approved issuers and sale by such issuers of GNMA-guaranteed "pass through" securities or bond type securities on the market or to the Federal Financing Bank or sell guaranteed "pass through" securities to the Federal Financing Bank.

4. Cost and Budget Implications. Any subsidy would be paid out of corporate funds and ultimately from Treasury borrowing. Dollar amount of mortgages purchased would not be excluded from budget authority, but would appear as outlays in any fiscal year only to the extent they are not offset by sales that year. Assuming (i) all mortgages purchased in a given fiscal year were sold in that year, (ii) a face interest rate of 9 1/4%, (iii) no discount points on GNMA purchase and (iv) an average market rate at time of GNMA sale of 10%, the budget outlays per each billion dollars of mortgages would be about $50 million.

PUBLIC UTILITIES

The problems of our public utilities are extremely serious. More than anything, they are suffering from the effects of inflation -- in particular the explosion in oil prices but also from high interest rates. Their inability to raise all the capital they need is forcing them to reduce construction plans, which causes unemployment today and the real threat of brown-outs tomorrow.

The most fundamental part of the solution to these problems is for increases in the cost of electricty, reflecting high prices for fuel,to be paid by the consumers. This means higher rates, as painful as they are.

In the past, the utilities industry has developed rate structures that encourage excessive energy consumption. These promotional rates are often at lower levels than the cost of the energy provided, and thus give a perverse incentive at a time when conservation is our goal. Regulatory authorities should eliminate such rate schedules promptly.

While the Federal Government will not pre-empt the regulatory functions of the States, the States must meet their responsibilities fully.

In addition, the restructuring of the investment tax credit and its increase from 4 percent to 10 percent for the utilities (the same as for businesses generally) will assist these companies in overcoming their financial problems. The new proposal that dividends paid on qualified preferred stock also be allowed as a deduction to the paying corporation will also help the utilities improve their capital structure, and energy conservation measures, mandatory and voluntary, will hold down future financing requirements of utilities.

THRIFT INSTITUTIONS

Our savings institutions are another victim of the twin scourges of high inflation and high interest rates. To correct this situation, we must bring inflation down. However, we must also provide the means for the thrift industry to restructure itself -- to give these institutions the ability to compete on an equal basis in the financial markets and to operate effectively under all interest-rate conditions. To this end, we urge prompt passage of the Financial Institutions Act of 1973.

The Act will reduce the structural differences between commercial banks and thrift institutions, primarily by permitting the thrift institutions to engage in additional deposit and credit activities. Passage of this Act would provide a broader range of financial services for consumers and a higher rate of return for savers. It would improve income and liquidity in the thrift institutions. The Act also contains provisions that will improve and support the mortgage market.

In addition, we support the proposals now under consideration in both the House and Senate to increase Federal insurance on private deposits. We recommend an increase from $20,000 to $50,000 Such an increase will reinforce public confidence in our financial system.

THE BUDGET

Control of the Federal Budget is a vital component of our anti-inflation efforts. Reducing the fiscal 1975 budget is the first step in reducing the powerful momentum of our rapidly climbing Federal budget and thereby gaining the spending control so necessary for 1976 and beyond. And this extended budget control will substantially reduce inflation over the longer term.

This should not suggest that budget control has no short-run benefits. Quite the contrary. A reduction in the deficit for fiscal 1975 would reduce pressures in the financial markets, lower interest rates and provide more credit for housing and other new capital investment. It would mean that monetary policy would not have to bear the full burden of economic policy restraint. And it would reduce inflationary expectations by demonstrating convincingly that the Federal government is putting its own financial house in order.

Our program for fiscal discipline has elements on both sides of the budget. On the revenue side we have proposed a tax surcharge on high-income taxpayers and corporations. The increased revenues from the surcharge will pay for the additional unemployment insurance, the Community Improvement Program, the increased and restructured investment tax credit and the revised tax status of preferred stock dividends.

On the expenditure side, the President has reaffirmed his intention to hold budget outlays for fiscal 1975 to below $300 billion. Cutbacks of over $5 billion will be needed to reach the goal. We are already in the fourth month of the fiscal year; thus reductions of the amount required will be difficult to obtain. There is need for rapid action, and the Congress and Executive together will need to work together quickly and effectively to put expenditures on a long-term track that is consistent with the productive capacity of the American economy and with what the American people are willing to pay for.

The President has asked the Congress to enact a bill setting a spending target for fiscal year 1975 of less than $300 billion. In establishing that target, the bill outlines a plan for developing a set of actions that would result in the necessary spending reductions of FY 1975. These actions would be transmitted to Congress for its consideration when it returns in November. The actions to hold down spending will concentrate on those programs that serve special interests, create inequities, or are less essential at this time when fiscal discipline is so important. Concurrence of the Congress in these proposals before the beginning of calendar year 1975 is essential if the $300 billion target is to be achieved.

The Administration together with the Congress have already begun to take action on this outlay control program in national defense activities. The Congress has passed, and the President has signed, a defense appropriation bill that will reduce defense outlays in FY 1975 by about $2 billion. This is the largest single cut we will be making and is a good start toward the $300 billion goal.

The remainder of the necessary outlay control plan will be carried out in the fullest spirit of cooperation with the Congress. Rapid consideration by the Congress of legislative proposals and budget rescissions and deferrals under the Congressional Budget and Impoundment Control Act of 1974 will be essential if we are to meet our goal. Only through the most careful consultation with the Congress can we succeed. We must achieve a mutual understanding of the best ways to hold down the budget.

We also have to improve the content of the budget. As now stated, the budget -- because it does not adequately show the impact of the Government's credit program -- does not present to the American people a complete picture of Federal activities and their effect on the economy. The Federally sponsored credit agencies and the many guarantee programs must be brought into the budget more directly.

The table below shows the estimated impact on budget expenditures and receipts of the proposals in this message.

BUDGET IMPACT

	FY 1975	FY 1976
	($ billions)	
New Proposals		
Additional Revenues:		
Tax surcharge:		
Corporations	+0.6	+1.5
High-income individuals	+1.0	+1.6
Revenue Losses:		
Employment assistance*	-0.1	-1.3
Housing program	-0.1	-0.1
Investment tax credit:		
Individuals	-0.1	-0.5
Corporations	-0.7	-2.0
Preferred stock dividends	---	-0.1
Net Impact	+0.6	-0.9
Pending Tax Reform Bill		
Pending tax reform:		
Increased oil taxes	+1.3	+2.2
Closing loopholes**	+0.1	+0.8
Simplification	---	-0.4
Other tax reform	-1.0	-0.2
Low-income relief	-0.9	-1.6
-- recommended addition	---	-0.4
Net Impact	-0.5	+0.4
Budget Impact of New and Pending Proposals	+0.1	-0.5

Note: In addition to the above items, new expenditure deferrals and recissions will be proposed to hold fiscal 1975 expenditures below $300 billion.

* For fiscal 1975, this assumes that a 6 percent unemployment rate triggers the program into effect on Mar. 1, 1975. Note, however, that the total expenditures for this program in fiscal 1975 will be $0.9 billion; $0.8 billion is already included in earlier budget estimates. For fiscal 1976, this assumes that the unemployment rate falls below 6 percent and thus triggers an end to payments as of December 31, 1975.

**Minimum tax on income and limitation on accounting losses.

TAX PROPOSALS

Surcharge

1. Corporations

A 5 percent corporate tax surcharge will be imposed effective January 1, 1975, and continuing through December 1975. The surcharge will be computed by multiplying the corporate tax (before credits against tax, but including the additional tax for tax preferences) by 5 percent. For corporations with taxable years ending in 1975 or beginning in 1975 and ending after 1975, the surcharge will be computed on a pro rata basis according to the number of days of the taxable year in 1975.

2. Individuals

A 5 percent individual tax surcharge will also be imposed for 1975 on income tax liabilities attributable to income above an upper income threshold.

In general, the proposal is designed to exclude from surcharge families with adjusted gross incomes below $15,000 and single persons with adjusted gross incomes below $7,500. However, because income tax liabilities are based on "taxable income" rather than "adjusted gross income," it is necessary to translate, on some average basis, the $15,000 and $7,500 into comparable "taxable income" figures. That was done as follows:

	Families	Single persons
Adjusted gross income	$15,000	$7,500
Standard deduction	-2,000	-1,300
Exemptions (assuming 4 for families 1 for single person)	-3,000	- 750
	$10,000	$5,450

Thus, the surcharge will be expressed technically as a surcharge on tax liabilities attributable to that portion of the taxpayer's "taxable income" in excess of the $10,000 or $5,450, as the case may be. Not all taxpayers have the same deductions and exemptions as those assumed above. For example, there will be married taxpayers with more exemptions and deductions than those assumed, who will pay no surcharge even though their adjusted gross incomes are somewhat greater than $15,000. Conversely, some with fewer exemptions may pay surtax even though their adjusted gross incomes are somewhat less than $15,000.

The computation is straightforward. The taxpayer (1) computes his regular tax, (2) subtracts from that the amount of tax applicable to either his $10,000 or his $5,450 exemption, and (3) then multiplies the balance by 5 percent. For example, a family of four filing a joint return and having $20,000 of taxable income would calculate a regular tax of $4,380 and subtract from that $1,820 (the tax on the first $10,000) to arrive at $2,560 which is subject to the 5 percent surcharge of $128. A single person with $10,000 of taxable income would calculate a regular tax of $2,090 and subtract from that $994.50 (the tax on the first $5,450) to arrive at $1,095.50, which is subject to the 5 percent surcharge of $54.78.

Investment Tax Credit

The proposal to change the investment tax credit has three principal parts: (1) the elimination of existing limitations and restrictions on the credit which tend to discriminate unfairly between the types of taxpayers and investments which qualify for the credit, (2) an increase in the rate of the present credit from 7 percent to 10 percent, and (3) making the credit a reduction in basis for depreciation purposes.

1. Present law

An amount equal to 7 percent of the cost of qualifying property (generally, tangible personal property used in a trade or business) may be offset directly against income tax liability, with the following limitations based on the expected useful life of the property:

Useful Life	Percent of cost of property qualifying for credit
0-3 years	0
3-5 years	33-1/3
5-7 years	66-2/3
7 years and over	100

Public utility property qualifies for only a 4 percent credit (The Ways and Means Committee has tentatively decided to remove this limitation).

The maximum credit which may be claimed in a taxable year is limited to $25,000 plus one-half of the excess of tax liability over $25,000.

Excess credits (limited by the above provision) may generally be carried back three taxable years and forward seven taxable years, after which they expire if still unused.

2. Proposed changes

Increase the rate from 7 percent to 10 percent. This will increase cash flow for all companies in the immediate future. It will be offset in future years by lesser depreciation deductions.

Eliminate the limitations based on useful life so that all property with a life in excess of three years will qualify for the full credit.

Eliminate the discrimination against public utility property so that it will qualify for the full rate and otherwise be treated the same as other qualifying property.

Replace the present limit on the maximum credit which may be claimed with eventual full refundability for the excess of credits over tax liability. Credits in excess of the present limitations may be carried back three years and then to the succeeding three years to offset tax liability, after which time any remaining excess credits will be refunded directly to the taxpayers. This will

-- Help growing companies which have present investments which are large in comparison with their current incomes.

-- Help companies in financial difficulties, which get no benefit from credit because they have little or no income tax liability against which to apply it.

-- Help small businesses, which under present law are more severely affected by the restrictions and limitations.

The three-year rule postpones adverse budget impact until revenues from basis adjustment are sufficient to offset revenue loss from this refundable feature.

Require the taxpayer to reduce the cost of qualifying property for depreciation purposes by the amount of the investment tax credit. This makes the credit neutral with respect to long-lived and short-lived assets and removes the present discrimination against long-lived assets.

Retain the present $50,000 per year limitation on qualifying used property.

Deduction for Dividends Paid on Certain Preferred Stock

To encourage expansion of corporate equity capital and increase the effectiveness of capital markets, it is proposed that dividends paid on qualified preferred stock be allowed as a deduction to the payor corporation. The provisions of the Internal Revenue Code providing for exclusions for dividends received by corporations would not be applicable to these dividends.

The deduction would only be available for cash dividends paid on preferred stock issued after December 31, 1974, for cash or pre-existing bona fide debt of the issuing corporation. For these purposes, preferred stock would be required to be non-voting, limited and preferred as to dividends and entitled to a liquidating preference. The intention to qualify preferred stock under this new provision of the Internal Revenue Code would be required to be clearly indicated at the time the stock was issued.

The Tax Reform Bill

1. Low-income taxpayer relief

We support the Tax Reform bill now pending in the Ways and Means Committee. It provides about $1.4 billion of tax relief for individuals with incomes of less than $15,000. In addition, the Tax Reform bill would produce a long-term revenue gain of about $500 to $600 million per year beginning in FY 1976 and we support using those revenues when received also to provide further income tax reductions for lower income families.

The principal individual tax reductions provided in the bill are increases in the minimum standard deduction, the standard deduction and the retirement income credit and a new simplification deduction which for most taxpayers will be larger than the miscellaneous, hard-to-compute deductions which it would replace.

The tax reductions in the bill are made possible primarily by revenues gained from tax reform measures and by increased taxes on oil producers. The tax reform proposals are based on Treasury proposals advanced a year and a half ago. The two main features are: (1) a minimum tax, designed to ensure that all taxpayers pay some reasonable amount of tax on their economic income, and (2) a provision (known as "LAL, i.e., limitation on artificial accounting losses) designed to eliminate tax shelter devices under which tax is avoided through the deduction of artificial losses which are not real losses.

In December 1973, the Treasury proposed a windfall profits tax on oil, which is now incorporated in the Tax Reform bill in modified form. The Committee has also provided for the phase-out over three years of percentage depletion on oil and gas.

The Committee bill raises less revenue from tax reform and oil taxes for calendar years 1974 and 1975 than the Treasury proposed. The Treasury hopes that Congress will restore some of the reform which the Treasury proposed. However, it is most important that tax reform and tax reduction legislation be enacted as promptly as possible and the Administration will support the bill in its present form.

2. Savings and investment proposals

Greater productivity in the next several years will be critical in winding down the wage-price spiral. That will require major new investments.

The Tax Reform bill now pending makes an important contribution by (i) bringing the investment credit for utilities up to the credit generally applicable for other industries,

(ii) liberalizing the treatment of capital gains and losses, and (iii) eliminating U.S. withholding tax on foreign portfolio investments, thus encouraging investment by foreigners in the United States.

Tax Exemption for Interest on Savings Accounts

Various proposals have been made to exempt interest on savings accounts. We do not support any such proposal for reasons which include the following:

(1) It would initially decrease the aggregate amount of saving. A $750 exemption for interest on time and savings deposits would cost about $2 billion, which the government would have to borrow in the private market to make up. That borrowing reduces the amount of savings available for private investment.

(2) It would not be effective. It would not substantially increase savings deposits because the tax exemption would not be a major benefit to most taxpayers. For a taxpayer in the 25 percent bracket, exemption would make a 5.25 percent account equivalent to a 7 percent taxable account, which is still considerably below the rates available elsewhere. Only high-bracket taxpayers would get major benefits.

(3) Passbook savings may increase some, but total savings will not increase. The principal effect would be some switching. It doesn't operate as an incentive for new savings because it doesn't reward the increase in savings.

(4) It would create new distortions in the credit and investment markets.

CITIZENS' ACTION COMMITTEE TO FIGHT INFLATION

The following Citizens have already agreed to help organize and support a voluntary private sector effort to mobilize all Americans in the fight against inflation:

MAYOR JOSEPH ALIOTO of San Francisco	Chairman, U. S. Conference of Mayors
ARCH BOOTH	President, Chamber of Commerce of the United States
RUSSELL W. FREEBURG	White House Coordinator
DAVID L. HALE	President, United States Jaycees
MRS. LILLIE HERNDON	President, National Congress of Parents and Teachers
ROBERT P. KEIM	President, The Advertising Council
MRS. CARROLL E. MILLER	President, General Federation of Women's Clubs
WILLIAM J. MEYER	President, Central Sprinkler Co. Landsdale, Pennsylvania
GEORGE MYERS	President, Consumer Federation of America
RALPH NADER	Private Citizen
LEO PERLIS	Director of Community Service, AFL-CIO
SYLVIA PORTER	National Syndicated Columnist
GOVERNOR CALVIN RAMPTON of Utah	Chairman, National Governors Conference
STANFORD SMITH	President, American Newspaper Publishers Association
FRANK STANTON	Chairman, American National Red Cross
ROGER FELLOWS	4-H, University of Minnesota

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VINCENT T. WASILEWSKI	President, National Association of Broadcasters
ROY WILKINS	Executive Director, National Association for the Advancement of Colored People
DOUGLAS WOODRUFF	Executive Director, American Association of Retired Persons

FOR IMMEDIATE RELEASE OCTOBER 8, 1974

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

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THE WHITE HOUSE

PRESS CONFERENCE
OF
WILLIAM E. SIMON
SECRETARY OF THE TREASURY
FREDERIC W. HICKMAN
ASSISTANT SECRETARY FOR TAX POLICY
ROY ASH
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
L. WILLIAM SEIDMAN
ASSISTANT TO THE PRESIDENT FOR ECONOMIC AFFAIRS
JAMES T. LYNN
SECRETARY OF HOUSING AND URBAN DEVELOPMENT

ROOM 450
OLD EXECUTIVE OFFICE BUILDING

2:40 P.M. EDT

SECRETARY SIMON: Let me first apologize for the delay in the receipt of these documents. I probably will not find out what happened for about three weeks but I apologize for the inconvenience.

What you are receiving now are the fact sheets. The speech does not contain all of the information, obviously. There are more fact sheets on the way.

Ladies and gentlemen, I had originally scheduled this, as you know, to be all prepared by 2:30, and I was going to speak for about 45 minutes and then accompany the President to the Hill for the speech to the joint session. As a result of this snafu, we are late and we obviously would not have had much time even if we had adhered to that schedule.

Instead of going to the Hill with the President, we will stay down here and respond to your questions until after the President speaks, certainly, and then we have to go to the Hill and brief the bi-partisan leadership.

So, this is an effort, a small effort on our part to accommodate you any way we can for this, as I said before, gross inconvenience to you and your time.

But, let me start now. Bill Seidman is still with the President and he will join us here in a minute and I just have a few opening comments, and we have the experts in several areas here to respond to any questions supplementary to my answers, or to answer technical questions.

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We have the Assistant Secretary of the Treasury for Tax policy, Fred Hickman, in the area of taxation.

I am glad to be here today to discuss the President's program to control inflation and maintain a healthy and growing economy. Now, I guess there are some people who are expecting a block buster, something that we are going to announce today that is going to be an instant cure for the problems that we have.

The fact of the matter is, as we have said so often, there are no instant cures, no magic formula that is going to cure our inflation immediately.

If the economic problems were simply the temporary inflation that often happens after the peak of a boom or the problem of temporary unemployment that occurs in a recession, the President's program could be quite straight-forward and simple.

For the first part of it he could put on the brakes of fiscal and monetary restraint and in dealing with the second, he could apply policies that could turn expansive. In either case, balance would be restored fairly promptly.

This time we have an inflation in an economy that is also suffering from severe basic imbalances and it is a very complex problem. We all recognize that our inflation didn't develop from just one or two factors, but rather a combination of factors. It is multi-dimensional in nature.

In addition to the pressures that are caused by the cartel pricing practices in oil, we have also suffered from some misfortunes including bad weather, which has affected crops, bad timing, cyclical convergence of a worldwide boom and bad policies that reflect years of excessive government spending and monetary expansion.

We now have to accept the responsibility for these government policies and recommend policies that fully take into account the circumstances in the world in which we find ourselves.

I believe the program that we are presenting to you today, that the President is presenting today, does just that. It is going to be perhaps a disappointment to those who argue for more government regulation, wage and price controls, credit allocations and gasoline rationing. Instead, we are presenting a program aimed at mimimizing government controls.

You know, we mounted I think -- and I have been told by people who have been in government a good deal longer than I -- the most comprehensive effort ever undertaken in the Government to deal with the subject of economic policy.

B

It was an effort that cut across the whole line of the cabinet officers with much participation and discussion.

This effort dealt with every area of the government and private sector activity. We drew heavily upon the many recommendations made at the Pre-Summit as well as the Summit meetings. We met continuously with President Ford to discuss all of the facets and all of the options that we had in front of us.

During this effort, I think a lot of things became apparent to us and one that certainly sticks out in my mind is that we have in the United States of America more government than we need. We have more government than most people want, and we certainly have more government than we are willing to pay for.

Now, in this balanced program that we are presenting, balanced as to fiscal and monetary policy approach, it includes firm and persistent restraint of both public as well as private demand. At the same time it provides the means for healthy, long-run growth and the capacity of our economy, programs aimed at correcting these imbalances that have developed in recent years and alleviating the inequitable hardships that have been imposed upon the poor.

Some further rise in unemployment is probable and we are going to take steps to deal with that. However, we can and will achieve our goals without a large rise in unemployment.

This is going to be a joint effort. It is going to be an effort of both the Congress and the Executive Branch.

As you go through this fact sheet, I think you will identify over 30 pieces of legislation, about a third of them new legislation that goes with our new proposals and the rest of them recent legislation that has been proposed but not enacted, to which we attach some great sense of urgency. This is a complete package, one that will deal with the whole problem and we should not look at it by just taking bits and pieces out and picking the parts we like and don't like because it is a program that requires some sacrifice in certain areas.

As we have said on many occasions, this is not going to be painless, nor is it going to be a swift process in the cure. We are dedicated to once and for all solving the problem of the insidious inflation that we are today experiencing.

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It starts out, the economic program, amending the Employment Act of 1946, which means that we must add something that some people have thought was implicit in this and that is the maintenance of price stability along with our other goals in that worthy act.

In the international area, our efforts are directed at cooperative activities in broad areas of food, and fuel, and many others which are well known to you, and they are here in the fact sheet. I am being necessarily brief in some of these areas so that I can maximize the question and answer period, which I am sure you would like.

Food prices are a major concern in our fight against inflation. Because of the weather and heavy demands from around the world, current forecasts anticipate price increases. We are committed and remain committed to all-out food production.

There are presently no restrictions government-wise on wheat and feed grain and soybeans. In addition, we are going to offer new legislation to remove restrictions on peanuts and long staple cotton in addition to the rice legislation where we support quick passage -- that is already up there on the Hill -- as long as it has a non-inflationary support price.

The farmer must also be assured of adequate supplies of fuel and fertilizer. The Secretary of Agriculture has been directed to work with the Inter-Agency Fertilizer Task Force to establish a reporting system. Fuel will be allocated if it is necessary. We will work with fertilizer companies to initiate voluntary efforts to reduce non-essential uses of fertilizer. We will also seek, if necessary, the necessary powers to allocate fertilizer.

It will be our policy and continue to be, to provide conditions that are going to enable the farmers to dispose of their entire output of agricultural commodities at reasonable prices. The Federal Government, as you know, will monitor food exports to assure that we retain adequate supplies at home while doing our best to maintain and meet the needs of our friends abroad.

Over this past weekend we initiated a voluntary program to monitor grain exports. The Committee and the Economic Policy Board will be responsible for looking at the entire situation after the crop report comes out, I believe the 10th of this month.

USDA and the Council on Wage-Price Stability have been directed to help reduce the cost of food by improving efficiency in the agricultural sector. Upward pressure on U.S. food prices will be reduced by helping developing nations to become more self-sufficient in the production of their own food.

C

In the energy area, expensive petroleum from insecure foreign sources jeopardizes our national security. It increases worldwide inflation and places strains on the international financial system. In order to reduce our dependence on foreign supplies, we have decided upon the following program to meet this energy challenge: Our immediate objective is to reduce oil consumption by one million barrels per day in 1975. I am confident that this target can be achieved without affecting any industrial output.

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This energy program calls for both mandatory and voluntary efforts. If these reductions are not achieved through the energy program that is presented today, we will seek more stringent means to insure that our dependence is reduced.

We have to develop conservation methods. We must continue and reaffirm our desires to conserve energy. You all know -- we warned many times after the embargo ended -- that the American people might go back to sleep, and while we are still saving energy below what was originally forecast, the amount of the reduction is not, in our judgment, satisfactory.

So we have to reaffirm our dedication to again work toward the areas of conservation that the American people responded to so well last winter.

In order to accomplish this goal, we are going to do it in many ways, not only on the demand side but on the supply side as well. We will submit legislation to require the use of coal and nuclear power for new electric power generation and conversion for existing plants.

We are setting a target date to eliminate oil-fired plants from the Nation's mainland base load electric capacity where it is feasible to convert to coal without endangering public health. We will use the Defense Production Act selectively to insure sufficient supplies of scarce materials that are needed for energy development projects. This Act was recently invoked to help get materials for the construction of the Trans-Alaska pipeline.

The automobile industry is going to be asked to develop programs for gasoline savings. During the past several sessions of Congress, legislation to require fuel savings has been considered and the nature of this legislative effort really has often caused confusion. We passed some additional costs to the consumer and perhaps subjected them to some unworkable deadlines. Therefore, we are requesting the automobile manufacturers to submit to the President a five-year schedule of their plans to produce more-efficient automobiles.

Goals on efficiency for industry are going to then be established by the Government. If necessary, the President will present legislation to the Congress for consideration.

The President has requested the Secretary of Commerce to develop energy-use guidelines which will suggest ways for industry to use energy more effectively.

Also, of course, we need more rigid compliance with the maximum speed limit. We all get many reports. I know many of you have spoken to me about "Everybody is back in business as usual." I don't think it is quite true but I still think that we need more rigid adherence to the 55-mile-an-hour speed limit.

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Not only has it saved a good amount of petroleum -- our estimates are 250,000 barrels a day are saved because of this speed limit -- but it has also resulted in a significant reduction in the highway death toll, which I consider equally as important.

Next is further conservation within Government. In your fact sheet you will see many actions there that are very familiar to you, recalling the days of the past winter. We are going to mandate these actions as far as Government is concerned. We recognize the difficulty of mandating reduction of thermostats in people's homes because we can't have thousands of people running all over checking on people's thermostats at home. We have found wonderful compliance with that last winter. We also expect and hope for the same compliance again.

As I said at the outset, if our targets are not met we will be suggesting stronger action to meet them. I will not go through all of the mandatory actions or the voluntary actions.

We are also asking for legislation that will increase domestic supplies of energy and there are some short-run actions that we can take.

I don't put the deregulation of natural gas as a short-run problem but it certainly isn't a long-run problem because in three to four years we could see some benefit from deregulation of natural gas and the attendant additional exploration that we would have comes upon us very quickly, so we are pushing for the deregulation of natural gas.

There is a short-run action -- Naval Petroleum Reserve Number 1. The President will submit legislation so that we can utilize and maximize the production in NPR 1. It can immediately be brought up to 160,000 barrels a day and, within a short period of time, be brought up to slightly over a quarter of a million barrels a day and perhaps more.

In addition, the President will propose legislation to explore NPR 4 in Alaska. This supposedly, according to the experts, has 30 to 40 billion barrels of reserves.

I hasten to add it is unproven because we don't have one developed well there. We will seek that legislative authority immediately.

As to the Clean Air Act amendments, the 13 amendments or 12 that were submitted to Congress just a few months ago, are going to be resubmitted in the same form.

On surface mining, an acceptable strip-mining bill must be passed by Congress. We have some problems with the bill that is in the Congress right now and we hope to work these out. We think that these problems can be resolved, and our obvious need for increased coal production is important.

There is the nuclear plant licensing bill, the deep water port facilities, ERDA, and all of the other actions. We are going to change the definition of secondary and tertiary recovery, which, as you all know, is a more expensive method of producing oil and, at the controlled oil prices, it is not economic for most of these to be explored. As a result, they will be redefined as new oil where practicable.

We will resume leasing of Federal land in 1975 to develop the vast coal resources underlying these lands -- leasing public land for oil shale and geothermal, and re-evaluate our entire oil shale and geothermal leasing program.

We will have completion of plans next year hopefully to bring Alaskan gas to our market. As I say, I am skipping over a great deal of these areas. You can read these and the details in your fact sheet.

There is increasing investment to accelerate the growth of capital investment. The President is calling for an increase and a restructuring of the investment tax credit. The credit will be increased from 7 to 10 percent for utilities. The actual increase is from 4 to 10 percent, although in the present Ways and Means Committee bill it already brings utilities up from 4 to 7.

The restructuring of the credit will eliminate existing restrictions which now limit the incentive value of the credit and discriminate unfairly between the types of taxpayers and investments that qualify for the credit.

We also must strengthen our capital markets. The capital markets are the centerpiece of our free-enterprise economy. The most important thing that we can do to restore the glow of health to these markets is to get control, of course, over inflation. A rapidly rising price level is the bitter enemy of savings and investment.

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As part of the anti-inflationary effort we will take a step that will also have a direct beneficial impact on our financial markets and that step is to work toward a balanced budget and to keep it balanced. A balanced budget means that all of the savings generated by our economy that we would preempt as we go through our deficit spending could be used for new and productive investment.

Of course, we are also going to take into account, as we work toward this, the budget agencies. We must create a better environment in the financial markets for equity capital.

In recent years corporations have been unable to raise adequate new equity capital. They have been adding heavily to their debt and, as a result, the capital structure of business has been getting out of balance with too much debt and too little equity.

This is especially true for our electric utilities.

To aid in this area and also to improve the health of our financial markets and to encourage investment, the President is proposing tax legislation to provide that dividends paid on qualified preferred stock be allowed as a deduction to the paying corporation.

We are also working with Congress to revise, as is in the Ways and Means bill, the treatment of capital gains and losses in such a way as to increase the efficiency.

In addition, we support strongly the pending legislation to eliminate the tax on interest and dividend income accorded to foreign holders of U.S. securities, and elimination of this impediment.

The elimination of this tax would remove an impediment from the flows of capital into the United States.

In the area of anti-trust the elimination of outmoded government regulation must, of course, be accompanied by dedicated and vigorous enforcement of our anti-trust laws.

To support this effort we have asked for two legislative enactments: First, increasing the penalties associated with anti-trust violations. For corporations, the maximum penalty will be increased from $50,000 to $1 million, while for individuals it will be increased from $50,000 to $100,000.

Second, we have to strengthen the investigation power of the Anti-Trust Division of the Department of Justice. This is going to be accomplished by speedy passage of the Administration legislation now pending before the Congress.

Government regulation: The government imposes many hidden and inflationary costs on our economy. The broad programs going to be undertaken to attack this problem and identify opportunities for change.

These are the so-called "sacred cows" that you all wrote about after many of our pre-summit meetings. The Council on Wage-Price Stability will act as a continuing watchdog on the inflationary actions of the federal government, to uncover the laws and regulations that raise costs and stifle economic flexibility and initiative.

We have to eliminate these restrictive practices of the government in areas such as transportation, labor, and agriculture.

The National Commission on Regulatory Reform: The President is going to submit legislation to create a national commission on regulatory reform to examine the policies, practices and procedures of those agencies and develop appropriate legislative and administrative recommendations.

This membership will include Members of the Congress, the Executive and private sector representatives.

The President will require all executive agencies to develop inflation impact statements to assess the inflationary and employment consequences of major legislation or regulations prior to any action that the agency might contemplate.

The President also recommends that Congress take similar steps.

New approaches are required to eliminate the interminable delays often created before these regulatory matters are resolved. There are several important pieces of legislation in your fact sheet we will also push in the area of regulation for immediate enactment.

The Council on Wage and Price Stability will devote primary emphasis to two functions: First, it will act as a watchdog on the actions of government which raise costs and impedes competition. It will recommend needed changes in legislation.

Second, it will monitor price and wage movements in the private sector. In general, the Council will carry out this function by seeking the full voluntary cooperation of labor, industry and the public to solve all of the problems of our mutual concern.

The Council will work with the President's new Labor-Management Committee. In addition, the Council also has the power to and will, indeed, conduct public hearings.

Among other duties, we will work with the Cabinet Committee on Food, the Fertilizer Task Force, and the new Construction Industry Advisory Group.

The Council, however, will not be a wage-price control agency. Controls do not stop inflation. They did not do so the last time around, and they did not do so in World War II when prices increased despite severe rationing.

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Controls make inflation just worse. They create shortages and hamper production and stifle growth and ultimately cause unemployment.

The National Commission on Productivity will spend a substantial amount of its energies to extend and deepen the drive to increase productivity in government. That is federal state and local. The rest of its effort will be devoted to the private sector with meaningful emphasis on programs at the plant level.

Special attention is going to be devoted to construction and health services. We are proposing the National Employment Assistance Act of 1974. It is going to provide standby authority to help alleviate the impact of unemployment should unemployment rates rise.

This Act would authorize, during the next 12 months, two programs.

Here is the one error that we have been able to find in the fact sheet. I hope it is the only one. I believe your fact sheet says 18 months. Make that 12 months.

QUESTION: That is on page 25.

SECRETARY SIMON: All right, page 25, thank you.

It is 12 months instead of 18 months and, consequently the day it ends is December 31, 1975 and not June 30, 1976. I say we believe that is the only error, but maybe there may be others.

Page 29 has the same error on the fourth line. June 30 should be December 31, 1975.

This Act would authorize during the next 12 months two programs which would begin to operate, should the national unemployment rate average six percent for three months, one, temporary programs of income replacement known as special unemployment assistance programs for experienced unemployed workers in areas of high unemployment would exhaust all other unemployment compensation not eligible for such compensation; and, two, a program of employment projects for these same areas known as the community improvement program.

While the primary purpose of the two programs is to alleviate the hardships of unemployment upon individuals, it will also alleviate the adverse impact on those local economies hardest hit by unemployment.

The assistance benefits serve to cushion the effects of protracted unemployment by providing additional income replacement to workers who have exhausted their unemployment benefits or to individuals with a demonstrated labor force attachment not otherwise eligible for U.I. benefits.

You can read the balance of that including the chart that is in your fact sheet. That shows how you have this triggered and the amounts of money that accompany each percentage of unemployment three months and it triggers out after three months below six percent as well, as it states there.

In the area of housing President Ford today is proposing extending on a temporary basis the advantages offered by GNMA to mortgages which are not FHA or VA, so-called conventional. Initially, $3 billion will be dedicated to this. This is an amount that is sufficient to finance approximately 100,000 homes. The proposed program will be in addition to the over $19 billion of federal funds that have been made available over the past year for the purchase of mortgages to supplement the buying power of the hard-pressed thrift institutions.

By making conventional mortgages on new homes eligible for purchases by GNMA, builders and homebuilders are going to be assisted where mortgage credit is scarce or even nonexistent. Authority will expire in 12 months and the rest of it tells you that the commitments cannot exceed $7-3/4 billion being purchased and not yet resold. The maximum mortgage amount is $45,000.

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Public utilities, I will skip over that. I have already mentioned that, and the tax credit, the increase from four to 10 percent.

On thrift institutions there is the Financial Regulation Act that was submitted a year ago August, as well as a study of the additional ways to alleviate the problems of disintermediation that affects the thrift institutions during periods of high interest rates.

Control of the federal budget is a vital exponent of our anti-inflation efforts in reducing the fiscal '75 budget. Obviously, it is not going to have a major impact on the rate of inflation but it is a first step in reducing the powerful momentum of our rapidly climbing federal budget and thereby gain the spending control that is so necessary for '76 and beyond. Over the long-term, this budget control is going to substantially reduce inflation.

Now, our program for fiscal discipline has elements on both sides of the budget. On the revenue side, we propose a surcharge on high income taxpayers and corporations. The increased revenues from the surcharge will pay for the additional unemployment insurance, the community improvement program, the increased and restructured investment tax credit and the revised tax status of the preferred stock dividend.

On the expenditure side, the President has reaffirmed his intention to hold budget outlays for fiscal '75 to at or below $300 billion. Cutbacks are going to be needed to achieve that goal.

The President is asking Congress to enact a bill establishing a budget outlay ceiling for '75 of $300 billion. In establishing that target, the bill outlines a plan for a set of actions which will result in the necessary outlay reductions as stated. Upon Congress' return we will have the measures of deferral and recession and will work with them in the interim for their enactment.

A surcharge of five percent, a corporate surcharge, will be requested effective January 1, 1975 and continuing through December, 1975. A five percent individual tax surcharge will also be imposed for '75 on income tax liabilities attributable to income above what we call an upper income threshhold.

In general, the proposal is designed to exclude from surcharge families with adjusted gross incomes below $15,000 and single persons with adjusted gross incomes below $7500. However, because income tax liabilities are based on taxable income rather than adjusted gross income, it is necessary to translate on some average formula basis the $15,000 and $7500 in comparable tax income figures.

This was done by the chart that you will find in your book.

The proposal to change the investment, tax credit has three principal parts -- the elimination of existing limitations and restrictions on the credit which tend to discriminate unfairly between the types of taxpayers and investments which qualify for the credit, and increase in the rate of the present credit from seven to 10 percent, and making the credit a reduction in basis for depreciation purposes.

Increasing the rate from seven to 10 percent will increase the cash flow to all companies in the immediate future. It, of course, is going to be offset in future years by lesser depreciation deductions, eliminating the limitations based on useful life so that all properties with life in excess of three years are going to qualify for the full credit. That is to eliminate the discrimination against public utility property.

It will replace the present limit on the maximum credit which may be claimed with eventual full refundability of the excess of credits over tax liability. Credits in excess of the present limitations may be carried back three years and into the succeeding three years to offset tax liability, after which time remaining excess credits are going to be refunded directly to the taxpayer.

This is going to help growing companies that have large present investments in comparison with their current incomes, and also it helps companies that are in financial difficulties that have no income tax liability at present against which to apply the existing credit.

Deductions on dividends and certain preferred stocks -- they are in the process of writing the regulations in the Treasury on this proposal now. Preliminary preferred stock would be required to be non-voting to qualify, limited and preferred as to dividends and entitled to a liquidating preference. The intention to qualify for preferred stock under this new provision of the Internal Revenue code would be required to be clearly indicated at the time that the stock was issued. This is going to give them the ability to issue stock so that the dividends would be deductible, so they will have an alternative means and this will hopefully broaden their market to other classes of investors.

We support the tax reform bill now pending in Ways and Means that provides about $1 billion 400 million of tax relief for individuals with incomes of less than $15,000. In addition, the bill will provide another $500 million to $600 million beginning in fiscal '76 and we support using those revenues we received also to provide income tax reductions for these lower income people.

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Then we talk about the tax reform bill that is in the Congress right now. Our proposals are a compliment and a supplement really to the tax reform bill. As I say, the President is endorsing the investment credit in the present bill utilizing the treatment of capital gains and the elimination of the withholding for foreigners.

That is what we attempted to do and hoped that will happen with our limited tax proposals. We tried to take a rifle approach rather than a shotgun approach and to attack the specific problems and hope that the Congress would enact this piece of legislation as is without amendments and separate from the tax reform bill that is going through the Ways and Means Committee now.

This is what the President will urge.

The President, in a speech next week, is going to announce a very comprehensive voluntary program, the very beginnings of which you will find right at the back of your fact sheet.

With that, gentlemen, I guess we will have questions.

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QUESTION: There is a promise that we can leave here at 3:40 so that we can file at 4 p.m. from the White House, and we would request permission for that.

SECRETARY SIMON: I will be delighted to do anything that you want. That is all right. We will pass out the speech. We will try to get more fact sheets.

QUESTION: How much would the corporate and individual surtax raise in taxes?

SECRETARY SIMON: In your chart it is $4.7 billion.

QUESTION: A lot of that is going to be taken out in consumer purchasing power. Isn't this going to tend to more recession?

SECRETARY SIMON: When you say consumer purchasing power, you are talking about taxing individuals over $15,000 a year, which represents 28 percent of the tax returns, individual tax returns.

QUESTION: What was that figure?

SECRETARY SIMON: 28 percent.

QUESTION: Did I hear you say $4.6 billion on the surcharge? I am looking at the budget impact statement on page 35, and it says $1.6 billion.

SECRETARY SIMON: I am giving you the gross amount that would be collected over a year, and what you have there is the two-year impact because there are lags to the collection of taxes and on the impact of the investment tax credit. It doesn't all come in within one year and, as a matter of fact, most of it comes in the following year, and that is the reason the numbers are different.

QUESTION: What is that $7 billion breakdown there?

SECRETARY SIMON: That is 4.7 billion. It is 2.6 billion for individuals and 2.1 billion for corporations.

QUESTION: This proposal to permit deductions of dividend payments on preferred stock -- do you see that as a starting move that you hope some day to have the budgetary room to extend to all dividend payments?

SECRETARY SIMON: We did not have that in mind when it was proposed, Miss Shanahan. The ultimate integration of corporate and income taxes which has occurred in most of the industrial countries of the world would have a severe revenue impact, and I would say that would have to be looked at in the context of major tax reform. I guess it could be described as a limited step in that direction, but we thought this was a very useful tool to give public utilities in particular and other companies in general a chance to expand their equity base.

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QUESTION: Mr. Simon, I don't think that you answered my question. I was asking what effect a $2.6 billion cut in consumer purchasing power would have on the economy and on the retail industry in particular.

SECRETARY SIMON: We did not believe that the impact was significant, of a 2.6 billion one-year surcharge.

QUESTION: Mr. Secretary, what do you regard as the most significant mandatory aspect of this, the mandatory energy portion of it?

SECRETARY SIMON: I would say the toughest proposal is asking the President for the powers to switch, federally, utilities in this country from oil to coal, number one, and the amendments of the Clean Air Act, number two, and the deregulation of natural gas. All of these are very strong actions and they are designed really to bring out additional supplies really in the short run.

QUESTION: Are they all dependent upon further Congressional action?

SECRETARY SIMON: They are dependent upon Congressional action, yes, sir.

QUESTION: What percentage is 1 billion barrels a day?

SECRETARY SIMON: Today we are importing approximately 6 and 1/2 million barrels a day, and we are consuming about 16 and 1/2.

QUESTION: How much did you anticipate that we will need of imported oil, that we will not need to import after this program is under way, the whole million?

SECRETARY SIMON: I believe by the end of 1975 we will have achieved a reduction of 1 million barrels a day.

QUESTION: That is foreign oil?

SECRETARY SIMON: Yes, in our imports.

QUESTION: Without deferrals and recessions, what would spending in fiscal '75 come out at?

SECRETARY SIMON: Our budget as submitted last January was approximately $305 billion.

QUESTION: What has Congress added to that?

MR. ASH: It could be another $2 billion, but we don't know how that legislation will come out.

SECRETARY SIMON: The legislation in process now could be in the area of $2 to $3 billion, but the President has announced that he will veto legislation in excess of the budget as presented and furthermore will take the necessary actions to bring it down from the original approximately $305 billion to at or below $300 billion, and he is asking Congress to enact the legislation setting that as a ceiling.

MORE

QUESTION: Mr. Secretary, you spoke of taxes for individuals with incomes at the level of $15,000. How do you reconcile that with the surcharge on the income of individuals above $7500?

SECRETARY SIMON: Well, it talks about families, Mr. Levine, at $15,000 and individuals at $7500 and then it adjusts through this formula that we have here.

Instead of adjusted gross income, it has to be translated into the taxable income.

QUESTION: I understand that, but I am referring to the comment here, "We support the tax reform bill now pending in the Ways and Means Committee which provides for tax relief for individuals with incomes of less than $15,000."

You are providing tax relief for individuals with less than $15,000 on the one hand while providing a surcharge for individuals over $7500.

SECRETARY SIMON: No, this would be computed.

Isn't this computed in the tax reform bill basically the same way, Fred?

MR. HICKMAN: The income distribution in the tax reform bill is broken out simply according to adjusted classes but we are talking about the bill providing this relief. It provides more relief than that, but this is the portion that is attributable to adjusted gross incomes of less than $15,000.

For those purposes they are not strictly comparable. It doesn't make any difference whether one is single or not.

QUESTION: Could you tell us what these are in the nature of, the benefits of the program? If you put it all into effect, what would the economy look like at the end of the full year of taxation?

MR. HICKMAN: I think we have put into place the necessary programs to stimulate the investment in our productive capacity in this economy that are required. We at the same time put into place a policy of budgetary restraint to match our monetary restraint and the unemployment assistance that is going to take cognizance of the fact that there are going to be those that bear a disproportionate burden of disinflation policies.

We have taken care of housing by those steps in recognition of that.

QUESTION: Could you tell us what the inflation rate would be if you got this whole program put into effect, what the unemployment picture would be?

MR. HICKMAN: Well, when one looks a year in advance and attempts to forecast anything, that is a pretty precarious business. You have seen all of the recent forecasts on what our inflation rate would be and I would certainly say it will be below double-digit inflation that we are experiencing, but I would not like to speculate as to what that single figure would be.

J

QUESTION: The President has set a goal of bringing inflation under control by July 4, 1976. What rate of inflation would satisfy that goal?

MR. HICHMAN: I think the President has studiously avoided setting what one might call an acceptable rate of inflation. There should be no acceptable rate of inflation.

We have experienced in the past year an inflation rate that has continued in the upward spiral. We are attempting -- and we believe we can, with these actions -- to reverse that upward spiral and start inflation in a downward pattern.

If we continue with determined efforts and through all of these measures that we are suggesting, if we are fortunate and everything is implemented in the near future, which we certainly hope and believe it will be, that we will have the inflation rate moving down a year from now.

- MORE -

QUESTION: You would expect it to turn down a year from now?

MR. HICKMAN: I most certainly would.

QUESTION: The corporations will pay $2.1 billion more in taxes and how many millions of dollars in tax benefits will they get under your program?

MR. HICKMAN: Well, on the tax benefits, if the investment tax credit is increased, that gives them an annual benefit of approximately $2.7 billion, so in the first year the benefit is small but in subsequent years, obviously -- it is a one-year surcharge -- they would benefit to the tune of $2.7 billion with an additional $100 million for the preferred stock change.

QUESTION: What kind of regulation would be unacceptable by a Government regulatory agency that is counterproductive in your view?

MR. HICKMAN: When we talk about "unacceptable," this is why we have to go into this whole regulatory process without identifying at this point and making sure that we pick out areas where there are good reasons for regulation. Regulation is supposed to protect people and not impede. There is some strong feeling that many of our Government regulations today impede the competitive process and raise the price to consumers.

You have areas in the trucking industry that are an illustration of that, and they are very emotional issues. There is the midway problem where, if a truck is driving 100 miles, very often it is forced to drive around an additional "X" number of miles because it is not allowed to take a certain route.

The back-haul problem is another area, but we have to recognize at the same time that everybody's back-haul is somebody's front-haul.

QUESTION: If you want to save 1 million barrels a day of imported oil, why didn't you impose an oil import quota of 1 million barrels a day?

MR. HIC MAN: We had discussed that and we discussed everything, but we didn't want to set in place a rigid program of a dollar limit or a barrel limit. We believe we can accomplish the same thing or more by imposing all of the measures that we have recommended.

THE PRESS: Thank you, Mr. Secretary.

END (AT 3:38 P.M. EDT)

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Oct. 9, 1974

MEMO FOR TREASURY PIOs

RE: Oil Depletion

Secretary Simon was asked about oil depletion at today's Ways and Means hearing.

First, he was asked if the Administration really does support the Tax Reform Bill as it now exists. Simon replied yes.

Then he was asked if the Administration supports the oil depletion provisions in the bill. Simon replied this way: Overall -- all things considered-- the bill is a good bill, with many good provisions. Obviously, in an imperfect world, the Administration can't have everything exactly the way it wants.

Given that pragmatic problem, the Administration supports the bill even with its provisions ending oil depletion allowances.

However, if "we could have our druthers" the Administration would want to retain oil depletion as a "carrot that helps produce revenues needed by men searching for oil."

If we could do what we really want the Adminstration would:

1. Remove foreign depletion.
2. Retain domestic depletion.
3. Restore the original administration version of Oil Windfall Profits --- our version is much stronger than what is in the committee print.

AW

Alan Wade

Department of the TREASURY NEWS

ASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE October 9, 1974

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for $2,000,000,000, or thereabouts, of 364-day Treasury bills to be dated October 22, 1974, and to mature October 21, 1975 (CUSIP No. 912793 WU6).

The bills will be issued for cash and in exchange for Treasury bills maturing October 22, 1974, outstanding in the amount of $1,801,790,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $1,036,180,000. 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, 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 one-thirty p.m., Eastern Daylight Saving time, Wednesday, October 16, 1974. Tenders will not be received at the Department of the Treasury, 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.

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

(OVER)

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.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. 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 or Branch on October 22, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 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 bills (other than life insurance companies) issued hereunder must include in his Federal 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.

Department of the Treasury 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
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20226
TELEPHONE 634-5248

FOR IMMEDIATE RELEASE
Thursday, October 10, 1974

MISSOURI TO HELP WITH REVENUE SHARING AUDITS

A cooperative audit agreement between the State of Missouri and the U. S. Treasury Department's Office of Revenue Sharing was signed in Washington this week.

Missouri State Auditor, John D. Ashcroft and Office of Revenue Sharing Director Graham W. Watt signed an agreement Monday that sets forth the terms under which Ashcroft's office will audit Missouri state agencies and 100 counties that receive and spend general revenue sharing funds.

The audits will be performed according to standards set forth by the Office of Revenue Sharing.

The Office of Revenue Sharing will supplement Missouri's audits with Federally-conducted reviews of local governments, randomly selected.

"In formalizing the work that Mr. Ashcroft's office has already begun to perform, Missouri has joined our Cooperative State Audit Program," Graham Watt announced. "Through this effort, state-trained auditors will help to assure compliance

(Over)

with civil rights, financial practice and other provisions of revenue sharing law."

Similar arrangements have been made with the states of New York, Michigan, Tennessee, Florida, Minnesota and Illinois. More than 6,000 local governments in seven states are now covered under the Cooperative State Audit Program.

In executing the agreement, John Ashcroft stated, "It is important that at every level of government we seek to conserve the resources provided by taxes. Our agreement to continue auditing revenue sharing funds should help avoid duplication of auditing efforts. This formalization of our auditing practices also plays an important role in developing effective federal-state relations".

The Office of Revenue Sharing has distributed $15.8 billion to nearly 39,000 states and local governments since December 1972. Of this, Missouri's state and local governments have received more than $293 million.

The State and Local Fiscal Assistance Act of 1972 which established the general revenue sharing program authorizes the distribution of $30.2 billion to states, counties, cities, towns, townships, Indian tribes and Alaskan native villages over a five-year period that ends with December 1976.

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

FOR RELEASE AT 9:00 A.M.
FRIDAY, OCTOBER 11, 1974

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE
JOINT ECONOMIC COMMITTEE
OCTOBER 11, 1974

Mr. Chairman and Members of this Committee, I am pleased to appear before you today to discuss the President's economic program announced on Tuesday.

The President's program is a very broad attack on inflation and related economic problems, comprised of an extensive list of actions to be taken by the Executive Branch, recommended legislation for the Congress, and proposals for the American people acting individually. None of these actions and recommendations is, of itself, a blockbuster, but many are very important and all are useful. Together they add up to a balanced, comprehensive and integrated package of economic policy.

Thus I hope the Congress, in considering the legislative proposals in this program, will consider it as a whole, each part in relation to all the others. In particular I refer to the revenue-raising and revenue-losing parts of the package. They were designed quite intentionally to closely balance out so that the fiscal integrity of our program would be maintained. We would not want to see that integrity seriously compromised.

In making those points, however, I do not mean to imply that we consider the program inviolable in every detail exactly as we have presented it. Quite the contrary, we welcome any and every better idea that can be found and will cooperate with the Congress fully in making improvements.

In that regard, I have been interested in the early public reactions to the program. It is clear that many people have different ideas than we do about the appropriate economic policy. That our proposals were criticized was expected, of course, but it is the pattern of this criticism that is worth noting. Most of the comments take one of two forms. The first is that our program is not dramatic enough or powerful enough, e.g., that instead of "biting the bullet" we are only nibbling at it, or that we are "biting the marshmallow." The other common reaction is that the tax surcharge is unacceptable. What this adds up to is that many think we are not doing enough in this economic program and most of the others think we're doing too much. Not a few hold both views simultaneously.

Again that's not completely surprising, but the point I want to make here is that our program, in the light of these conflicting criticisms, is consistent with the political realities of the present situation. It would be nice if we could lower rather than raise taxes and it would be nice if we could put even more money into programs to cushion the impact of inflation where it has fallen disproportionately. But we can't do those things and also achieve our primary goal, which is to work down the rate of inflation. I think the President's program strikes a good balance among these competing objectives, and I hope this Committee will help us keep that balance.

I do not think it is necessary for me to describe the program to you; all or most of you heard the President on Tuesday and the principal components of the program have been widely reported. Attached to my statement is a copy of the "Fact Sheet" for the program, which I hope you will find useful for details of the various programs.

One point I would like to emphasize is the temporary nature of the proposed tax surcharge on corporations, and upper-income groups. Among those who support it, there are some who think it should be made permanent. I do not think it should, not simply because of my own proclivity for limiting the size and scope of government, but because I believe that attitude is now held rather generally by the American people. We have more government than we need, more government than we want, and certainly more government than we are willing to pay for.

One final thought: I hope the legislation proposed by the President can move forward rapidly. I do not suggest that Congress try to deal with the many complex questions that are involved here in a hasty or ill-considered way, but I most firmly believe that both houses should act on these measures with an accelerated schedule.

Thank you very much.

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NEWS

TELEPHONE 634-5248

FOR IMMEDIATE RELEASE
2:30 P.M., E.S.T.
Friday, October 11, 1974

OFFICE OF REVENUE SHARING AND EQUAL EMPLOYMENT OPPORTUNITY COMMISSION TO WORK COOPERATIVELY

In an agreement concluded in Washington today, the Treasury Department's Office of Revenue Sharing and the Equal Employment Opportunity Commission (EEOC) established procedures to assist both agencies in resolving complaints of employment discrimination against public employers and their contractors.

The pact was signed by Graham W. Watt, Director of the Office of Revenue Sharing, and John H. Powell, Chairman of the Equal Employment Opportunity Commission, in Mr. Watt's office.

When investigating a complaint of discrimination involving a public employer, EEOC staff will seek to determine whether general revenue sharing funds have been involved. Where EEOC finds that shared revenues have been used in a discriminatory activity, cases will be referred to the Office of Revenue Sharing for action.

"In effect, EEOC's more than 400 investigators will be involved in the general revenue sharing Civil Rights Compliance program," Graham Watt said today. "This will strengthen our efforts to assure compliance with the civil rights provisions of revenue sharing law. We, in turn, will help EEOC to resolve discrimination cases quickly and effectively."

EEOC has seven regional offices, 32 district offices and five litigation centers.

In addition to its reports of investigations, EEOC will make available to the Office of Revenue Sharing on a confidential basis the employment statistics required to be filed with EEOC by all units of government with 100 or more employees.

In turn, the Office of Revenue Sharing will help EEOC to determine whether all governments with 15-100 employees have kept minority employment records, as required by law.

Powell said that the agreement "is another great step forward by government agencies as we join forces in the battle against employment discrimination. Job discrimination," he continued, "hampers severely the moral and legal right of minorities and women in the American workforce to realize their goals and aspirations."

Established by Title VII of the Civil Rights Act of 1964, as amended, EEOC is an independent commission that seeks to prevent discrimination in employment based on race, color, religion, sex or national origin. It has jurisdiction over some 10,000 units of government that receive general revenue sharing funds.

Revenue sharing law provides that "No person in the United States shall on the grounds of race, color national origin, or sex be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity funded in whole or in part with (revenue sharing funds)."

The State and Local Fiscal Assistance Act of 1972 authorizes the distribution of $30.2 billion in shared revenues over a five-year period that ends with December 1976. Since the first checks were mailed in December 1972, $15.82 billion has been paid to nearly 39,000 units of state and local government in the United States.

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

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NOTE TO CORRESPONDENTS October 10, 1974

Attached are tables which illustrate the effect of the proposed 5 percent Surcharge on families and individual taxpayers in varying tax situations.

Attachment

WS-124

Illustrations of the Effect of the 5 Percent Surcharge on Four Person Families

(dollars)

	Adjusted gross income (wages)								
	15,000	16,000	17,000	18,000	20,000	25,000	30,000	40,000	50,000
Present law tax	1,699	1,882	2,064	2,247	2,660	3,750	4,988	7,958	11,465
Surcharge	0	3	12	21	42	97	158	307	482
Surcharge as percent of present tax (%)	0	0.2	0.6	0.9	1.6	2.6	3.2	3.9	4.2

Office of the Secretary of the Treasury
Office of Tax Analysis

October 9, 1974

Note: Calculated assuming 17 percent itemized deductions.

Illustrations of the Effect of the 5 Percent Surcharge on Single Persons

(dollars)

	Adjusted gross income (wages)								
	7,500	8,000	9,000	10,000	15,000	20,000	25,000	30,000	40,000
Present law tax	995	1,087	1,283	1,482	2,549	3,783	5,230	6,850	10,515
Surcharge	0	4	14	24	78	139	212	293	476
Surcharge as a percent of present tax (%)	--	0.4	1.1	1.6	3.1	3.7	4.1	4.3	4.5

Office of the Secretary of the Treasury
Office of Tax Analysis

October 9, 1974

Note: Calculated assuming 17 percent itemized deductions or minimum standard deduction if more favorable.

Illustrations of the Effect of the 5 Percent Surcharge on Four Person Families

Case A:	$15,000 income
Case B:	$20,000 income
Case C:	$50,000 income

Office of the Secretary of the Treasury October 8, 1974
Office of Tax Analysis

Case A: $15,000 Income

Wages (adjusted gross income)	$15,000
Less four personal exemptions (@ $750)	-3,000
Less deductions for personal expenses (assumed 17 percent of income)	-2,550
Equals taxable income	9,450
Tax before surcharge	1,699
Less surcharge floor for joint returns	-1,820
Equals tax subject to surcharge	0
Five percent surcharge	0
Tax after surcharge	1,699
Tax increase (surcharge) as percent of present law tax	0

Office of the Secretary of the Treasury
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October 8, 1974

Case B: $20,000 Income

Wages (adjusted gross income)	$20,000
Less four personal exemptions (@ $750)	-3,000
Less deductions for personal expenses (assumed 17 percent of income)	-3,400
Equals taxable income	13,600
Tax before surcharge	2,660
Less surcharge floor for joint returns	-1,820
Equals tax subject to surcharge	840
Five percent surcharge	42
Tax after surcharge	2,702
Tax increase (surcharge) as percent of present law tax	1.6%

Office of the Secretary of the Treasury October 8, 1974
Office of Tax Analysis

Case C: $50,000 Income

Wages (adjusted gross income)	$50,000
Less four personal exemptions (@ $750)	-3,000
Less deductions for personal expenses (assumed 17 percent of income)	-8,500
Equals taxable income	38,500
Tax before surcharge	11,465
Less surcharge floor for joint returns	-1,820
Equals tax subject to surcharge	9,645
Five percent surcharge	482
Tax after surcharge	11,947
Tax increase (surcharge) as percent of present law tax	4.2%

Office of the Secretary of the Treasury October 8, 1974
Office of Tax Analysis

Illustrations of the Effect of the 5 Percent Surcharge on Single Taxpayers

Case D	$ 7,500 income
Case E	$10,000 income
Case F	$15,000 income

Office of the Secretary of the Treasury October 8, 1974
Office of Tax Analysis

Case D: $7,500 Income

Wages (adjusted gross income)	$7,500
Less one personal exemptions (@ $750)	-750
Less deductions for personal expenses (assumed 17 percent of income) or minimum standard deduction	-1,300
Equals taxable income	5,450
Tax before surcharge	995
Less surcharge floor for single returns	-995
Equals tax subject to surcharge	0
Five percent surcharge	0
Tax after surcharge	995
Tax increase (surcharge) as percent of present law tax	0

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Office of Tax Analysis

October 8, 1974

Case E: $10,000 Income

Wages (adjusted gross income)	$10,000
Less one personal exemptions (@ $750)	-750
Less deductions for personal expenses (assumed 17 percent of income)	-1,700
Equals taxable income	7,550
Tax before surcharge	1,482
Less surcharge floor for single returns	-995
Equals tax subject to surcharge	487
Five percent surcharge	24
Tax after surcharge	1,506
Tax increase (surcharge) as percent of present law tax	1.6%

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Office of Tax Analysis

October 8, 1974

Case F: $15,000 Income

Wages (adjusted gross income)	$15,000
Less one personal exemptions (@ $750)	-750
Less deductions for personal expenses (assumed 17 percent of income)	-2,550
Equals taxable income	11,700
Tax before surcharge	2,549
Less surcharge floor for single returns	-995
Equals tax subject to surcharge	1,554
Five percent surcharge	78
Tax after surcharge	2,627
Tax increase (surcharge) as percent of present law tax	3.1%

Office of the Secretary of the Treasury
Office of Tax Analysis

October 8, 1974

Illustrations of the Effect of the 5 Percent Surcharge on Four Person Families

Case G	$25,000 income
Case H	$30,000 income
Case I	$40,000 income

Office of the Secretary of the Treasury   October 9, 1974
Office of Tax Analysis

Case G: $25,000 Income

Wages (adjusted gross income)	$25,000
Less four personal exemptions (@ $750)	-3,000
Less deductions for personal expenses (assumed 17 percent of income)	-4,250
Equals taxable income	17,750
Tax before surcharge	3,750
Less surcharge floor for joint returns	-1,820
Equals tax subject to surcharge	1,930
Five percent surcharge	97
Tax after surcharge	3,847
Tax increase (surcharge) as percent of present law tax	2.6%

Office of the Secretary of the Treasury
Office of Tax Analysis

October 9, 1974

Case H: $30,000 Income

Wages (adjusted gross income)	$30,000
Less four personal exemptions (@ $750)	-3,000
Less deductions for personal expenses (assumed 17 percent of income)	-5,100
Equals taxable income	21,900
Tax before surcharge	4,988
Less surcharge floor for joint returns	-1,820
Equals tax subject to surcharge	3,168
Five percent surcharge	158
Tax after surcharge	5,146
Tax increase (surcharge) as percent of present law tax	3.2%

Office of the Secretary of the Treasury
Office of Tax Analysis

October 9, 1974

Case I: $40,000 Income

Wages (adjusted gross income)	$40,000
Less four personal exemptions (@ $750)	-3,000
Less deductions for personal expenses (assumed 17 percent of income)	-6,800
Equals taxable income	30,200
Tax before surcharge	7,958
Less surcharge floor for joint returns	-1,820
Equals tax subject to surcharge	6,138
Five percent surcharge	307
Tax after surcharge	8,265
Tax increase (surcharge) as percent of present law tax	3.9%

Office of the Secretary of the Treasury
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October 9, 1974

Illustrations of the Effect of the 5 Percent Surcharge on Single Taxpayers

Case J	$20,000 income
Case K	$25,000 income
Case L	$30,000 income

Office of the Secretary of the Treasury
Office of Tax Analysis

October 9, 1974

Case J: $20,000 Income

Wages (adjusted gross income)	$20,000
Less one personal exemptions (@ $750)	-750
Less deductions for personal expenses (assumed 17 percent of income)	-3,400
Equals taxable income	15,850
Tax before surcharge	3,783
Less surcharge floor for single returns	-995
Equals tax subject to surcharge	2,788
Five percent surcharge	139
Tax after surcharge	3,922
Tax increase (surcharge) as percent of present law tax	3.7%

Office of the Secretary of the Treasury
Office of Tax Analysis

October 9, 1974

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Case K: $25,000 Income

Wages (adjusted gross income)	$25,000
Less one personal exemptions (@ $750)	-750
Less deductions for personal expenses (assumed 17 percent of income)	-4,250
Equals taxable income	20,000
Tax before surcharge	5,230
Less surcharge floor for single returns	-995
Equals tax subject to surcharge	4,235
Five percent surcharge	212
Tax after surcharge	5,442
Tax increase (surcharge) as percent of present law tax	4.1%

Office of the Secretary of the Treasury
Office of Tax Analysis

October 9, 1974

Case L: $30,000 Income

Wages (adjusted gross income)	$30,000
Less one personal exemptions (@ $750)	-750
Less deductions for personal expenses (assumed 17 percent of income) or minimum standard deduction	-5,100
Equals taxable income	24,150
Tax before surcharge	6,850
Less surcharge floor for single returns	-995
Equals tax subject to surcharge	5,855
Five percent surcharge	293
Tax after surcharge	7,143
Tax increase (surcharge) as percent of present law tax	4.3%

Office of the Secretary of the Treasury
Office of Tax Analysis

October 9, 1974

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
WASHINGTON, D.C. 20503

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FOR INFORMATION CALL
202-456-2237

FOR IMMEDIATE RELEASE October 11, 1974

COUNCIL ON WAGE AND PRICE STABILITY MEETS

The Council on Wage and Price Stability held its first formal meeting under the Chairmanship of Treasury Secretary William E. Simon this afternoon at the White House and took the following actions:

(1) Directed the Council staff to give emphasis to two major functions which are:

  (a) monitoring wage and price movements in the private sector, and

  (b) reviewing government policies and practices that increase costs and prices.

(2) Approved the Table of Organization for the Council which will have four offices: the Office of Government Operations and Research, the Office of Wage and Price Monitoring, the General Counsel and the Office of Public Affairs and Congressional Relations. It will be staffed by about 40 persons and have a budget of $1 million.

(3) Named James L. Blum, 38, of Alexandria, Virginia as Deputy Director.

The Director of the Council, Dr. Albert Rees, said that the Council will focus its monitoring efforts on selected targets not being addressed by other Federal agencies and groups. A high priority will be on food processing and distribution. The Council staff was instructed to consider whether sugar and antifreeze prices should be items for immediate attention. The Council will also devote a major effort to the costs and prices of medical care.

Dr. Rees emphasized that he expected full voluntary cooperation with the Council's investigations and studies, but that there would be vigorous use of public hearings in instances where this seems appropriate. In some cases the Council may wish to make specific recommendations to the President, the Congress and industry, based on the findings of these hearings.

In monitoring government activity the Council will select specific targets where action is feasible and would have an impact on costs and prices. The target statutes, rules, or administrative procedures will be those that have an inflationary impact greater than their social and economic benefits. The Council will also review selected inflationary impact statements prepared by Federal agencies.

The Council on Wage and Price Stability was established by Public Law 93-387, August 24, 1974 to monitor wage and price behavior in the United States. Members of the Council are:

William E. Simon, Secretary of the Treasury, Chairman

L. William Seidman, Director of the Economic Policy Board, Deputy Chairman

Earl L. Butz, Secretary of Agriculture

Frederick B. Dent, Secretary of Commerce

Peter J. Brennan, Secretary of Labor

Ms. Anne Armstrong, Counsellor to the President

Roy Ash, Director, Office of Management and Budget

Ms. Virginia Knauer, Consumer Advisor to the President

EXECUTIVE OFFICE OF THE PRESIDENT .
COUNCIL ON WAGE AND PRICE STABILITY
WASHINGTON, D.C. 20503

OCTOBER 11, 1974

JAMES L. BLUM NAMED DEPUTY DIRECTOR COUNCIL ON WAGE AND PRICE STABILITY

James L. Blum today was named Deputy Director of the Council on Wage and Price Stability. As Deputy Director he is responsible for day to day management of Council operations and acts in the absence of the Director.

Mr. Blum, 38, a native of Elgin, Illinois, comes to the Council from the Department of Labor where he was Acting Deputy Assistant Secretary for Research and Evaluation, and Director of the Office of Program Analysis and Special Studies. Prior to the Labor Department, Mr. Blum was with the Office of Management and Budget as Assistant Chief of the Human Resources Programs Division from September 1970 to February 1972; a budget examiner from 1969 to 1970 and as a staff assistant to Director Charles Zwick from 1968 to 1969.

Mr. Blum also worked with the Organization for Economic Cooperation and Development in Paris during 1962 to 1965, and as a consultant to the Government of Zambia Office of National Development Planning in Lusaka during 1965 and 1966.

A 1958 graduate in economics from the University of Michigan, Mr. Blum was elected to Phi Beta Kappa and Phi Kappa Phi. He received his masters degree in economics also from the University of Michigan in 1960, and did further graduate study at Michigan in economics, during 1965 to 1967.

Mr. Blum is married to the former Margene Swanson of Crystal Lake, Illinois. They have two children and reside in Alexandria, Virginia.

Department of the TREASURY NEWS

ASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE October 11, 1974

MEMORANDUM TO THE PRESS:

Attached is an exchange of letters between Secretary of the Treasury William E. Simon and Congressman Henry S. Reuss.

WS-125

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THE SECRETARY OF THE TREASURY
WASHINGTON

OCT 10 1974

Dear Henry:

I have read with care your recent letter on floating, and I am happy to say that I believe we are in agreement on the basic elements of the U.S. position with regard to floating. As expressed in the negotiations on reform during the past two years, the U.S. position has been that countries should have maximum practical freedom of choice in deciding upon their balance of payments adjustment measures. Specifically, we have argued that countries should be free to float their currencies so long as they adhere to internationally agreed standards that would assure the consistency of their action with the basic requirements of a cooperative order.

While your letter expresses support for this basic position, you express concern that the Treasury has assented in a "drift toward a return to fixed exchange rate parities as the basis of the international monetary system" and that the U.S. representatives in the C-20 "did not insist upon the option for member countries to float without the need for any type of prior authorization."

My own observations do not reveal, however, a drift in thinking among international financial officials toward a return to fixed exchange rate parities. A large number of officials continue to look forward in the hope that some day -- which all recognize could not be soon -- par values will represent the center of gravity of the exchange rate system, but the experience over the past year and a half with generally floating rates has in fact probably led to a much wider recognition of the contributions which floating rates can make.

I can also report that in the discussions of the C-20 the U.S. representatives did take the position that the International Monetary Fund should not be in a position to prohibit a country from floating so long as that country were willing to follow generally accepted guidelines. The Outline of Reform finally agreed, after lengthy negotiations, to indicate "the general direction in which the Committee believes that the system could evolve in the future," provides "countries will undertake obligations to maintain specified maximum exchange rate margins for their currencies, except when authorized to adopt floating rates." Our position was that a requirement for Fund authorization would be acceptable only on the understanding that there would be an open general license for any nation to float if it were abiding by the agreed guidelines. This position was not agreed by others, but the Outline does provide that "the authorization will be given in accordance with the provisions to be agreed."

The Committee did agree to ask the IMF Executive Board to prepare draft amendments of the Articles of Agreement to enable the Fund to legalize the position of countries with floating rates during the interim period.

In the consideration of proposed amendments over the coming months, the U.S. representatives will continue to take the position that the option to float should be available to any nation undertaking to observe the appropriate guidelines.

I greatly appreciate your support for this position.

Sincerely yours,

(Signed) Bill

William E. Simon

The Honorable
Henry S. Reuss
House of Representatives
Washington, D. C. 20515

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Congreſs of the United States
JOINT ECONOMIC COMMITTEE
(CREATED PURSUANT TO SEC. 5(a) OF PUBLIC LAW 304, 79TH CONGRESS)
WASHINGTON, D.C. 20510

August 16, 1974

The Honorable William E. Simon
Secretary
U.S. Treasury Department
Washington, D. C. 20220

Dear Mr. Secretary:

On June 14, as you know, the Committee of Twenty established by the International Monetary Fund submitted its final report, accompanied by an Outline of Reform. The Committee on Reform of the International Monetary System and Related Issues, as it was formally known, has -- apparently with your assent and that of the Treasury -- sustained the drift toward a return to fixed exchange rate parities as the basis of the international monetary system. This trend disturbs me, since it conflicts with the policy recommendations of the Joint Economic Committee, on which I serve, and with what I understood to be the avowed position of this Government.

I.

The First Outline of Reform, presented by the C-20's chairman on September 24, 1973, stated that:

> The main features of the international monetary reform should include: an . . . exchange rate regime based on stable but adjustable par values and [with] floating rates recognized as providing a useful technique in particular situations.

This language was endorsed by Secretary Shultz in his speech before the last annual meeting of the IMF Governors in Nairobi. He said:

> There is full acceptance of the idea that the center of gravity of the exchange rate system will be a regime of "stable but adjustable par values," with adequately wide margins and with floating "in particular situations."

On November 13 and on December 5, 1973, the Subcommittee on International Economics of the Joint Economic Committee and the Subcommittee on International Finance of the House Committee on Banking and Currency conducted joint hearings to review progress toward international monetary reform. Among the witnesses testifying were Treasury Under Secretary Paul A. Volcker and Federal Reserve Board Chairman Arthur F. Burns. The Joint Subcommittee on International Economics issued on January 9, 1974, a report based on these hearings. The first recommendation of this report stated:

> For the foreseeable future, the dollar should continue to float in exchange markets.

The subsequent discussion listed six reasons why a continued dollar float seemed advisable to the Subcommittee members. The second recommendation said:

> In the drafting of an agreement to reform the international monetary system, the U.S. monetary authorities should insist that each IMF member retain the option of letting its currency float in exchange markets without the need to obtain any advance authorization from Fund authorities. The American demand that each IMF member have an unequivocal right to float -- according to mutually agreed guidelines -- should be clearly enunciated when the Committee of Twenty again convenes in Rome in January.

In testimony before the Joint Economic Committee on February 8, 1974, Secretary Shultz observed, "A statement put out by a subcommittee of the Joint Economic Committee just before our own meeting was a very helpful document." I interpreted, perhaps erroneously, this statement to mean that the Secretary was in general agreement with the recommendations of the Subcommittee report and that this position had been forcefully presented at the C-20 meeting in Rome.

A bipartisan majority of the entire Joint Economic Committee endorsed and reiterated the substance of the Subcommittee's earlier recommendations in the full Committee's annual report, published on March 25. It said:

> The dollar should continue to float in exchange markets and the trend of this float should not be significantly influenced in either direction by official intervention.

> Furthermore, any international monetary reform approved by U.S. authorities should include for each International Monetary Fund (IMF) member, without the need for any type of prior authorization, the option of letting its currency float in exchange markets for as long as that member desires.

I am enclosing with this letter a copy of both the Subcommittee and full Committee reports for your perusal.

Despite the urgings of the Joint Economic Committee, the Treasury, in presenting the U.S. position to the other members of the Committee of Twenty, did not insist upon the option for member countries to float without the need for prior IMF authorization. The language cited above from the First Outline of Reform is repeated verbatim in the final outline presented by the C-20. Under the reformed international monetary system envisioned by the C-20, floating exchange rates will constitute an aberration and a departure from the desired norm. The Committee postulates a return to the Bretton Woods system, the essence of which was established par values for exchange rates.

Other parts of the Outline and accompanying annexes are quite explicit. For example, paragraph 13 says:

> Countries may adopt floating rates in particular situations subject to Fund authorization, surveillance, and review. . . . Such authorization will be given in accordance with provisions to be agreed, on condition that the country undertakes to conform with agreed lines for conduct. . . . Authorization to float may be withdrawn if the country fails to conform with the guidelines for conduct, or if the Fund decides that continued authorization to float would be inconsistent with the international interest.

Paragraph 13 appears in Part I of the Outline, which is described as indicating "the general direction in which the Committee believes that the system could evolve in the future." But on the subject of floating rates, the intentions of the Committee and the Fund are not so tentative, since in paragraph 35 under Part II, which details steps to be taken immediately, the following statement appears:

> During the present period of widespread floating, countries will be expected in their intervention and other policies to follow guidelines on the lines of Section B of Annex 4 and be subject to surveillance in the Fund as there described.

The substance of Section B under Annex 4 was therefore to be implemented immediately upon the publication of the Outline. Indeed, the guidelines contained in this section were adopted by the Executive Board on June 13, 1974.

Section B, in an apparent reference to paragraph 13 in Part I, presents guidelines for "a country authorized to adopt a floating rate." Given this reference, the Fund authorization procedure, described in paragraph 13, is apparently also in effect. Has the United States been authorized to float?

The need for explicit prior authorization from the Fund is indicated by the preliminary discussion included in Section A of Annex 4, which says in reference to Section B:

> An illustrative example is set out below. Under another, more liberal approach, a country might propose to the Fund the adoption of a floating rate for its currency, and provided that the country undertook to conform with agreed guidelines for conduct, the Fund would approve such a proposal.

The procedures laid out in Section B and paragraph 13 are less permissive than this alternative.

I note that under paragraph 41 of Part II on immediate steps, "The Executive Board is asked to prepare draft amendments of the Articles of Agreement" to achieve several purposes. Among these purposes is "to enable the Fund to legalize the position of countries with floating rates." It is suggested that such draft amendments be presented to the Board of Governors, i.e., the member nations, for their approval by February 1975.

II.

The decision of the C-20 to recommend a return to "stable [i.e., fixed] but adjustable par values" ignores current realities in five respects. First, monetary authorities cannot calculate enduring par values. Second, recent history has amply demonstrated the inability of authorities to maintain par values. Third, the ability of monetary authorities to maintain any given par value is steadily diminishing. Fourth, the interventionist philosophy of the Committee of Twenty hampers the ability of exchange markets to grow and smooth exchange rate fluctuations. Fifth, the Report of the C-20 ignores the particular need of countries like the United States to rely upon floating rates.

(1) Even Theoretically Monetary Authorities Cannot Calculate Durable Par Values.

The economic conditions that determine the abilities of trading nations to compete with one another -- including rates of inflation, productivity growth, rates of aggregate economic expansion, technological innovations, and fluctuations in agricultural output -- are changing continuously throughout the world and at widely divergent rates. It is folly to believe that any limited group of mortal men, such as the IMF Council proposed in the Outline, can calculate a set of exchange rate parities that will be appropriate and accepted in exchange markets for more than a matter of months, if that long. No model of transactions among IMF members is sufficiently complete, no computer is big enough, and no crystal ball is clear enough to permit the accurate forecasting of exchange rates on more than a very short-term basis. Moreover, fortuitous events are always occurring to upset any smoothly projected rate of change. Even after such random shocks have occurred, the size of their impact frequently cannot be accurately gauged.

Exchange markets must therefore be allowed to adjust to temporary phenomena. Even if subsequently part or all of this adjustment may be reversed, such a reversal, or its extent, is no certainty. To stand in the way of market-directed exchange rate changes is to block the price mechanism from inducing those responses that market participants, who far outnumber monetary authorities and who collectively possess far more extensive knowledge, believe to be necessary.

(2) The Historical Record Demonstrates the Inability of Monetary Authorities to Set Appropriate Par Values.

The record of central bankers and finance ministers in attempting to establish exchange rates that will be durable is miserable. Nevertheless, without demonstrating any improvement in their performance, the Committee of Twenty would vest the power to set exchange rates once again in the same group of people who have botched the job so badly in the past.

Throughout the late 1960s and early '70s, central bankers and finance ministers, including spokesmen of the Federal Reserve and the U.S. Treasury, insisted that our payments deficits would eventually disappear without the need for exchange rate changes if existing programs to promote exports, curtail American tourism abroad, limit overseas investment, etc., were allowed sufficient time to have their full impact. This line of argument was stoutly maintained even though some of these programs had been initiated in the early 1960s.

After dollar-gold convertibility was suspended in August 1971, officials had two chances to reinstitute a set of exchange rate parities that would be accepted by private traders, investors, and holders of liquid assets. The first attempt came in December 1971 at the Smithsonian Conference. This set of rates lasted until the summer of '72, when British authorities decided to let the pound float. Expectations of an upward revaluation of the German mark and other European currencies strengthened toward the end of 1972, and in early '73, officials finally abandoned the Smithsonian.

But their next step was to attempt to institute a new set of exchange rate parities, and in February the Treasury once again proposed dollar devaluation -- the second decrease in the nominal gold value of the dollar in fourteen months. This attempt to return to fixed rates endured for a far shorter period than the Smithsonian arrangement -- less than a month. In March 1973, the authorities threw in the sponge and decided to let the external value of most major industrial countries be determined day-to-day by supply and demand in exchange markets. A group of European countries, primarily the members of the EEC, resolved that their currencies would float jointly vis-a-vis the dollar, but even this halfway house has been largely abandoned, since currently the United Kingdom, France, and Italy are each allowing their currencies to float independently.

Both abortive attempts to institute new sets of exchange rate parities for the currencies of the major industrial countries, it should be emphasized, occurred before the producer nations announced major increases in oil prices or any other economic upheaval that could not be anticipated by the officials computing the new parities.

Past attempts by officials to maintain unrealistic parities caused the United States to accumulate tens of billions of dollar liabilities to foreign monetary authorities and produced increases in the money supplies of surplus nations that fueled inflation. But without any argument to the effect that the performance of officials in attempting to establish durable exchange rate parities will be superior in the future to what it was in the past, the Committee of Twenty blandly recommended that the same authorities who fumbled their previous assignment be given even more extensive, like responsibilities in the future.

(3) Potentially Massive Capital Flows Have Deprived Monetary Authorities of the Ability to Manage Exchange Rates.

The volume of liquid assets capable of being transferred internationally is today so large that no combination of official monetary authorities can prevent exchange rate changes from occurring if holders of liquid assets believe such changes are in keeping with economic realities.

The Bank for International Settlements has estimated that net foreign currency credits extended by banks in eight European countries and by banks in certain "Eurocurrency centers" outside Europe, such as the Bahamas, totaled the equivalent of about $170 billion at the end of March. Short-term investments in the Eurocurrency markets by oil-producing countries, with their huge payments surpluses, may cause the supply of liquid funds susceptible to international transfer to grow further this year. Nor do these totals include the huge volume of domestic currency assets in each of the major industrial countries that can move across international boundaries when strong expectations of impending exchange rate changes arise.

If officials persisted in defending a set of exchange rates among the major industrial countries that holders of liquid assets believed were patently unrealistic, assets worth scores of billions of dollars could move in attempts to avoid exchange rate losses or to realize profits. In comparison with these magnitudes, the reciprocal currency swap network among the central banks of the major industrial countries now provides the potential for loans of a theoretical maximum of nearly $19 billion. Total special drawing rights outstanding and reserve positions in the Fund amount to a similar slightly smaller magnitude. But it is virtually impossible that more than half of the resources in the central bank swap network or a similar proportion of all SDRs and Fund reserve positions could be mobilized to defend any given currency or set of currencies during an exchange crisis.

A billion dollars a day have moved through exchange markets during periods of strong expectations that rates were about to shift, and the volume of internationally liquid mobile capital is growing steadily. Under these circumstances, the apparent conviction held by the Committee of Twenty that monetary authorities can successfully defend exchange rates that are not credible in the market is an exercise in self-delusion. The only effective way to avoid massive international capital flows is to continuously maintain exchange rates that holders of liquid assets find credible. Achievement of this objective requires frequent small shifts in exchange rates, and who can better decide what liquid asset holders find credible than exchange markets themselves?

The C-20's proposed guidelines for countries authorized to adopt <u>floating</u> rates say, "A member would not be asked to hold any particular rate against strong market pressure." But why does this statement appear here -- under the recommended behavior for floaters? Does it imply that IMF members who have announced fixed parities would be expected to hold to these rates in the face of strong market pressure?

I would hope that no country, fixer or floater, would be expected to follow such a policy. Past errors of this type have proved far too costly, in terms of ballooning foreign debt burdens and induced inflation, to be repeated.

(4) C-20 Interventionism Limits the Ability of Private Markets to Smooth Exchange Rate Fluctuations.

While overlooking the poor record of monetary authorities in attempting to set and maintain credible exchange rates, and while failing to acknowledge the extremely limited ability of the authorities to defend exchange rates in the face of market pressures, the guidelines proposed by the Committee of Twenty would have central banks compete with private exchange dealers in providing the short-term intermediation that commercial interests profitably can and should extend. The impact of the C-20's interventionist philosophy would therefore be to capture the profits that private interests would otherwise earn by buying currencies low and selling them high. Limiting the potential profits of private actors in exchange markets inhibits the growth of these markets and retards the development of expertise that is essential to effective smoothing of exchange rate fluctuations.

The proposed guidelines state:

> A member with a floating rate may act, through intervention or otherwise, to moderate movements in the exchange value of its currency from month-to-month and quarter-to-quarter, and is encouraged to do so, if necessary, where factors recognized to be temporary are at work. (Emphasis added.)

Public authorities, including monetary authorities, should limit their activities to the provision of services that private interests can or will not. Private banks and other participants in the exchange rate market can and do take uncovered (i.e., speculative) positions in foreign currencies for periods from one month up to and exceeding a year. By helping to make a futures market in foreign exchange, these private speculators facilitate international trade and investment and decrease the range of exchange rate fluctuations. Their inducement for taking these uncovered or speculative positions is the expectation of profit to be gained from these dealings. In buying low and selling high -- the only way to make a profit -- speculators tend to shave the troughs and peaks off fluctuations in currency values.

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Of course, all the forward positions taken in exchange markets by private interests do not return profits, as the experiences of the Franklin National and Herstatt Banks have recently demonstrated. But if profitable as a continuing activity, speculation tends to smooth exchange rate fluctuations.

By performing the same functions themselves, monetary authorities limit the potential profits of private exchange dealers. By reducing profits, the authorities discourage new private interests from entering the exchange market, they inhibit the taking of progressively larger uncovered positions by private dealers, and interfere with the development of additional expertise among private interests. Thus, excessive intervention by monetary authorities hampers the development of large, well-financed, and flexible exchange markets providing ample volumes of forward cover in all major currencies. Monetary authorities should restrict their activities to those jobs which private interests clearly cannot handle and should encourage private participants in exchange markets to expand their services to the maximum possible extent.

The unstated philosophy behind the Committee of Twenty's Outline and intervention guidelines, however, is that the authorities should intervene whenever an excuse for intervention can be offered, not that authorities should stay out until there is evidence that the capabilities of private dealers are being exceeded. The attitude implicit in the C-20 guidelines is one of skepticism and perhaps even mistrust toward the actions of private interests. By adopting this attitude, the Committee tends to perpetuate that very instability that it is avowedly attempting to prevent.

(5) <u>A Return to Fixed Rates Would Ignore the Particular Need of the United States to Float.</u>

The Outline of Reform prepared by the Committee of Twenty fails to acknowledge any differences among countries that make floating a more appropriate exchange rate policy for some than for others. Instead, the Outline says:

> Countries may adopt floating rates in particular situations, subject to Fund authorization, surveillance and review. . . . Such authorization will be given in accordance with provisions to be agreed, on condition that the country undertakes to conform with agreed guidelines for conduct. . . . Authorization to float may be withdrawn if the country fails to conform with the guidelines for conduct, or if the Fund decides that continued authorization to float would be inconsistent with the international interest.

"International interest" is one of those conveniently vague phrases that leaves ample latitude for subsequent interpretation by the IMF. Certainly no one would ask the Fund to act against the international interest. But what about the national interests of various IMF members? These various interests differ according to the economic characteristics of individual member states. Is it reasonable to jam the exchange rate behavior of all members into the same mold? I think not.

The industrialized countries differ markedly in the extent to which domestic production is exported and raw materials, intermediate products, and consumer goods are imported. Commercial exports and imports together are equivalent to about 10 percent of the U.S. gross national product. By comparison, the international trade of some other major industrial countries, such as Great Britain, France, and Germany, is equivalent to about 40 percent of their GNP. These other countries, therefore, can use macroeconomic demand management policies, i.e., monetary and fiscal policies, much more easily than the United States to affect their external trade positions. The United States, on the other hand, must rely relatively more on exchange rate changes to alter prices sufficiently to avoid persistent payments surpluses and deficits. The dramatic strengthening of the U.S. trade balance from a $7 billion deficit in 1972 to a $600 million surplus in 1973 reflected, in part, the contribution that appropriate exchange rate policies can make to the maintenance of international payments equilibrium.

Differences among nations in rates of inflation, productivity growth, and economic expansion require more or less continuous adjustment of exchange rates. Small changes effected by the market are preferable to large and, in the past, oft-delayed jumps calculated by authorities. For a country like the United States especially, a nation with a relatively small involvement in international trade compared to its domestic economy, floating probably is the best mechanism for avoiding persistent payments disequilibria. What if the policymakers of this country do choose frequent, small exchange rate changes determined by the market as a preferable means of adjustment to larger, occasional shifts in the par value for the dollar? The Outline of Reform drafted by the Committee of Twenty would not permit the United States the option of adopting floating exchange rates as a normal exchange rate regime.

III.

The Bretton Woods Agreements Act, which authorized U.S. membership in the International Monetary Fund and in the International Bank for Reconstruction and Development (World Bank), states that "Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States . . . accept any amendment under Article XVII of the Articles of Agreement of the Fund." Article XVII specifies the procedures for amending the Articles. The Articles have been amended only once, in 1969, when the special drawing rights facility was approved. The scope of the amendments that will presumably be presented to the Congress for consideration sometime in 1975 will be broader and have a more significant impact on the future of the international monetary system than the introduction of special drawing rights. The Congress will weigh the implications of these amendments carefully and not grant rubber stamp approval.

What would the international monetary reform proposed by the Committee of Twenty do? Among other things, it would delegate to the IMF the authority of determining when member states will and will not be allowed to let the external value of their currencies be determined in exchange markets by private supply and demand. The determination of when a country would or would not be permitted to float its currency would be based on "the international interest," without apparent explicit consideration of the national interests of individual IMF members.

Floating has in the last year and a half proved to be a good exchange rate regime. International trade and investment have not been stifled but have both grown at exceptionally healthy rates. If we had attempted to maintain fixed dollar parities in the face of the political and economic upheavals of the past year, the calculations of authorities would have been sent spinning. Instead, exchange markets have adjusted quickly and reasonably easily. Trade and investment have not been interrupted, and the world has gone on quite smoothly.

In discussing the relative advantages and disadvantages of fixed versus flexible exchange rates, it is critical to distinguish between the easy certainty of hindsight and the imperfections of foresight. There is no trick to plotting the fluctuations in the average external value of the dollar over the past year and a half and drawing a trend line somewhere through the midst of these peaks and troughs. Economists advocating a return to fixed parities and monetary authorities propounding their wisdom sometimes plot such a retrospective trend to accompany the argument that if such-and-such a pattern of exchange rates had been maintained, certain unnecessary and costly adjustments resulting from excessive exchange rate fluctuations could have been avoided.

But there is a huge leap from plotting a smooth trend derived from historical data and successfully forecasting future trends. If the monetary authorities are confident in their abilities, let them place in a sealed envelope the level at which they would set dollar exchange rates and the amounts of assets they believe would be necessary to defend these rates. Then let us open this envelope a year or two from now and see if their predictions are borne out. I am extremely skeptical that the authorities performance would be up to snuff. Instead, I believe a return to fixed parities would once again mean large, disruptive exchange rate changes at irregular intervals.

In requesting the power to authorize member states to float their currencies in exchange markets according to their interpretation of "the international interest," the officials of the International Monetary Fund would assume some of the functions of an international central bank. For the United States to submit to this type of authority under the guidelines that have been proposed, I believe, would be a major error. The guidelines presume far too much meddling in exchange markets by authorities. Instead, the authorities should stay out of exchange markets except when conditions arise that private interests are clearly unable to manage. The only guideline for central bank intervention in exchange markets that has appealed to me is to permit such institutions to intervene for the purpose of quelling "market disruption," i.e., when some currencies are being offered in large amounts but there are few takers at any price, while other currencies are generally desired but unavailable. Perhaps the IMF or other monetary authorities can propose additional sensible guidelines. But the guidelines proposed by the Committee of Twenty are far too permissive of intervention by authorities.

More importantly, the Outline proposed by the Committee of Twenty is far too stringent in not permitting countries to choose floating exchange rates as their normal regime. Any country which desires to do so should be permitted to float its exchange rate so long as its action does not damage the economic interests of other members. Respecting the interests of other members essentially means not engaging in competitive exchange rate appreciation or depreciation. Guidelines of this type would be perfectly easy to devise. But under no circumstances should the United States deny itself the option of resorting to an exchange rate regime which since March 1973 has proved to be in the best interests of not only this country but also the international economic community as a whole.

A new plan of reform should be drafted that would permit IMF members to opt for either fixed parities under one set of rules or floating rates under another set of guidelines. To approve the plan for reform submitted in June by the Committee of Twenty would constitute an excessive, unnecessary and unreasonable transfer of power to the International Monetary Fund. If a plan such as this is submitted sometime next year to the Congress for approval, I shall argue that it be rejected.

The time has long since passed when the United States should have asserted its national interest in IMF-organized exercises to redraft the Articles of Agreement. The next annual meeting of the Governors will provide an excellent opportunity for the United States to disabuse other members of the notion that we will subscribe to any international monetary reform that deprives this country of the right to float the dollar in exchange markets as a normal exchange rate regime. This right should be circumscribed only to the extent that floating can be manipulated to damage the economic interests of other countries. So long as an IMF member refrains from causing such injury, there should be no limitation on its right to float.

I urge you, as the United States Governor to the International Monetary Fund, to make an unequivocal statement to this effect in your remarks to the assembled Governors at the forthcoming annual meeting. I would appreciate early confirmation of your intent to make such a statement.

Sincerely,

Henry S. Reuss, M.C.

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

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FOR RELEASE 6:30 P.M. October 11, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.7 billi... of 13-week Treasury bills and for $2.0 billion
...h series to be issued on October 17, 1974,
...erve Banks today. The details are as follows:

...k bills	:	26-week bills	
...nuary 16, 1975	:	maturing April 17, 1975	
Equivalent Annual Rate	: Price	Equivalent Annual Rate	
7.671%	: 96.109 b/	7.696%	
7.785%	: 96.014	7.884%	
7.722% 1/	: 96.042	7.829%	1/

...ng $9,465,000
...ng $305,000

...for the 13-week bills were allotted 77%.
...for the 26-week bills were allotted 50%.

13-wk 26-wk

Last
6.698 wk 7.364

To-
7.722 day 7.829

High
since
8.185 9/16/74

9/23/74 7.928

...ACCEPTED BY FEDERAL RESERVE DISTRICTS:

		Accepted	:	Applied For	Accepted
		$ 19,985,000	:	$ 24,820,000	$ 13,820,000
		2,262,520,000	:	2,472,565,000	1,710,565,000
		24,285,000	:	8,325,000	8,325,000
		33,205,000	:	39,095,000	39,095,000
		21,785,000	:	16,970,000	16,970,000
		32,515,000	:	21,455,000	21,455,000
Chicago	256,305,000	175,130,000	:	120,335,000	40,835,000
St. Louis	33,490,000	26,110,000	:	42,135,000	27,135,000
Minneapolis	5,660,000	3,660,000	:	4,580,000	3,580,000
Kansas City	42,430,000	30,195,000	:	40,935,000	26,920,000
Dallas	25,025,000	14,775,000	:	27,785,000	14,785,000
San Francisco	171,000,000	56,425,000	:	135,520,000	76,520,000
TOTALS	$4,165,830,000	$2,700,590,000	c/	$2,954,520,000	$2,000,005,000 d/

c/ Includes $312,170,000 noncompetitive tenders accepted at average price.
d/ Includes $220,925,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 7.99% for the 13-week bills, and 8.26% for the 26-week bills.

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

FOR RELEASE 6:30 P.M. October 11, 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 October 17, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 16, 1975		26-week bills maturing April 17, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.061 a/	7.671%	96.109 b/	7.696%
Low	98.032	7.785%	96.014	7.884%
Average	98.048	7.722% 1/	96.042	7.829% 1/

a/ Excepting 3 tenders totaling $9,465,000
b/ Excepting 2 tenders totaling $305,000

Tenders at the low price for the 13-week bills were allotted 77%.
Tenders at the low price for the 26-week bills were allotted 50%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 47,300,000	$ 19,985,000	$ 24,820,000	$ 13,820,000
New York	3,398,795,000	2,262,520,000	2,472,565,000	1,710,565,000
Philadelphia	49,285,000	24,285,000	8,325,000	8,325,000
Cleveland	56,145,000	33,205,000	39,095,000	39,095,000
Richmond	43,785,000	21,785,000	16,970,000	16,970,000
Atlanta	36,610,000	32,515,000	21,455,000	21,455,000
Chicago	256,305,000	175,130,000	120,335,000	40,835,000
St. Louis	33,490,000	26,110,000	42,135,000	27,135,000
Minneapolis	5,660,000	3,660,000	4,580,000	3,580,000
Kansas City	42,430,000	30,195,000	40,935,000	26,920,000
Dallas	25,025,000	14,775,000	27,785,000	14,785,000
San Francisco	171,000,000	56,425,000	135,520,000	76,520,000
TOTALS	$4,165,830,000	$2,700,590,000 c/	$2,954,520,000	$2,000,005,000 d/

c/ Includes $312,170,000 noncompetitive tenders accepted at average price.
d/ Includes $220,925,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 7.99% for the 13-week bills, and 8.26% for the 26-week bills.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE October 14, 1974

MEMO FOR THE PRESS: SIMON INFORMAL NEWS CONFERENCE

Treasury Secretary William E. Simon and Soviet Foreign Trade Minister Nicolai Patolichev formally opened the offices of the US-USSR Trade and Economic Council late Monday and then Simon told an informal news conference that his talks with Soviet officials have been "extremely friendly."

The Treasury Secretary said he would continue the talks on "a whole menu of subjects" Tuesday in addition to taking part in a meeting of the Board of Directors of the US-USSR Trade and Economic Council. The organization was set up last year to assist with the expansion of American-Soviet Trade.

Simon confirmed that a three and one-half hour meeting with Patolichev today he discussed not only the grain sale situation but subjects including the trade bill currently before the Congress. "We consider the passage of the trade bill critical and think resolution of the most favored nation (MFN) problem absolutely of the utmost importance," Simon told reporters. He said that he believes that a compromise will be reached and a trade bill passed "before the end of the year." He added "we seem to be coming down the home stretch on this issue."

As to grain, Simon said he gave a report on the total world grain supply, domestic supplies, demand, export supplies and price problems. "We had a very useful give and take on the whole issue for some time," Simon said. He was asked if he felt some Americans fear exports of grain. "That is an ill-founded fear," he said. "We need exports. We are a trading nation, we always have been. Our philosophy is for open markets... That is what we are striving for. The quadrupling of oil just adds to the demand that we export to help pay for our oil."

He emphasized that the government must also pay attention to possible effects of exports on domestic markets. He refused to comment when asked if he felt the grain sale would finally go through. "We have nothing to say on that, it would be premature," Simon said. The talks will continue Tuesday.

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August 31, 1974

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH

(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	5003	4999	4	.08
Series F and G-1941 thru 1952	29521	29502	18	.06
Series J and K-1952 thru 1957	3754	3748	5	.13
UNMATURED				
Series E [3]:				
1941	1935	1757	178	9.20
1942	8541	7736	805	9.43
1943	13730	12458	1271	9.26
1944	16041	14473	1568	9.77
1945	12631	11263	1368	10.83
1946	5769	4998	772	13.38
1947	5507	4644	863	15.67
1948	5715	4745	970	16.97
1949	5677	4637	1040	18.32
1950	4986	4021	965	19.37
1951	4313	3478	835	19.36
1952	4526	3624	901	19.91
1953	5187	4081	1106	21.32
1954	5302	4110	1191	22.46
1955	5520	4245	1275	23.10
1956	5336	4074	1262	23.65
1957	5035	3801	1234	24.51
1958	4933	3635	1298	26.31
1959	4632	3379	1253	27.05
1960	4665	3316	1349	28.92
1961	4765	3275	1490	31.27
1962	4643	3114	1529	32.93
1963	5232	3331	1900	36.31
1964	5098	3254	1844	36.17
1965	4992	3164	1827	36.60
1966	5408	3296	2112	39.05
1967	5343	3209	2134	39.94
1968	5039	2999	2040	40.48
1969	4751	2723	2028	42.69
1970	4985	2609	2376	47.66
1971	5746	2614	3132	54.51
1972	6340	2481	3859	60.87
1973	6267	2051	4217	67.29
1974	3237	455	2782	85.94
Unclassified	535	675	-140	-
Total Series E	202,364	147,728	54,636	27.00
Series H (1952 thru May, 1959) [3]	5483	4112	1370	24.99
H (June, 1959 thru 1974)	9831	3497	6333	64.42
Total Series H	15,314	7,609	7,703	50.30
Total Series E and H	217,678	155,337	62,339	28.64
All Series Total matured	38,278	38,249	27	.07
All Series Total unmatured	217,678	155,337	62,339	28.64
All Series Grand Total	255,956	193,586	62,366	24.37

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[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

September 30, 1974

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UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH

(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	5003	4999	4	.08
Series F and G-1941 thru 1952	29521	29502	18	.06
Series J and K-1952 thru 1957	3754	3748	6	.16
UNMATURED				
Series E 3/:				
1941	1935	1757	178	9.20
1942	8544	7740	804	9.41
1943	13740	12465	1275	9.28
1944	16046	14482	1564	9.75
1945	12635	11270	1365	10.80
1946	5773	5002	771	13.36
1947	5511	4649	863	15.66
1948	5719	4750	969	16.94
1949	5681	4642	1039	18.29
1950	4991	4026	965	19.33
1951	4317	3482	834	19.32
1952	4530	3628	901	19.89
1953	5194	4086	1107	21.31
1954	5309	4116	1192	22.46
1955	5530	4251	1278	23.11
1956	5344	4080	1264	23.65
1957	5045	3808	1237	24.52
1958	4940	3641	1298	26.28
1959	4642	3386	1256	27.06
1960	4671	3322	1349	28.88
1961	4772	3282	1490	31.22
1962	4652	3122	1529	32.87
1963	5240	3342	1899	36.24
1964	5107	3265	1843	36.09
1965	4997	3175	1821	36.44
1966	5418	3310	2108	38.91
1967	5357	3224	2133	39.82
1968	5048	3010	2038	40.87
1969	4761	2742	2019	42.41
1970	4996	2624	2372	47.48
1971	5759	2635	3124	54.25
1972	6356	2511	3845	60.49
1973	6284	2105	4179	66.50
1974	3529	562	2967	84.07
Unclassified	741	785	-43	-
Total Series E	203,114	148,277	54,833	27.00
Series H (1952 thru May, 1959) 3/	5483	4120	1364	24.88
H (June, 1959 thru 1974)	9871	3537	6331	64.14
Total Series H	15,354	7,657	7,695	50.12
Total Series E and H	218,468	155,934	62,528	28.62
All Series Total matured	38,278	38,249	28	.07
All Series Total unmatured	218,468	155,934	62,528	28.62
All Series Grand Total	256,746	194,183	62,556	24.36

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 WO4-2041

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FOR IMMEDIATE RELEASE October 15, 1974

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,700,000,000 , or thereabouts, to be issued October 24, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,700,000,000, or thereabouts, representing an additional amount of bills dated July 25, 1974, and to mature January 23, 1975 (CUSIP No. 912793 VS2), originally issued in the amount of $1,901,350,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,000,000,000, or thereabouts, to be dated October 24, 1974, and to mature April 24, 1975 (CUSIP No. 912793 WF9).

The bills will be issued for cash and in exchange for Treasury bills maturing October 24, 1974, outstanding in the amount of $4,503,495,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,487,155,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, 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 one-thirty p.m., Eastern Daylight Saving time, Monday, October 21, 1974. Tenders will not be received at the Department of the Treasury, 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.

Banking institutions and dealers who make primary markets in Government

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securities and report daily to the Federal Reserve Bank of New York their positio 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.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. 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 or Branch on October 24, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 24, 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 bills (other than life insurance companies) issued hereunder must include in his Federal 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.

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

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

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FOR IMMEDIATE RELEASE October 15, 1974

MEMO FOR THE PRESS: SIMON PRESS CONFERENCE

Treasury Secretary William E. Simon told a Moscow news conference late Tuesday that "we achieved everything we came over to achieve" and that he would be reporting to President Ford the results of grain discussions with Soviet leaders.

He confirmed that he will be meeting with Communist Party Chief Brezhnev this evening and will attend a dinner Brezhnev is hosting for US-USSR Trade and Economic Council leaders.

Simon again predicted that the trade bill pending in Congress will pass "within 45 days--before Christmas." He said that American-Russian trade had increased from $200 million in 1973 to $1.4 billion in 1974, adding that grain sales would be less than last year but still high. "We had very lengthy discussions here in Moscow, Minister Patolichev and I, on the entire world grain situation, what their demands on the market would be and what indeed the crop production would be." He said later that questions regarding Soviet grain statistics should be addressed to their side.

On other trade matters, he said that Export-Import Bank financing is important but not the only avenue of credit for bilateral trade with the USSR, and that while the talks dealt with energy, specific Soviet petroleum sales to the United States were not brought up.

Secretary Simon reaffirmed the "extremely friendly" nature of the talks and said that "no antagonisms" were apparent in the frank and full discussions. He said that the talks were valuable for expanding mutual personal relationships between the two nations

Also in attendance at the news conference were members of the Trade and Economic Council with Deputy Foreign Trade Minister Vladimir S. Alkhimov presiding.

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Department of the TREASURY NEWS

ASHINGTON, D.C. 20220 TELEPHONE W04-2041

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October 15, 1974

FOR IMMEDIATE RELEASE

TREASURY CASH FINANCING

The Treasury will raise $2.5 billion of cash by auctioning up to $1.0 billion of notes maturing May 15, 1979, and up to $1.5 billion of bills maturing June 19, 1975.

The 4-year 6-month notes will be auctioned on a yield basis, rather than the conventional price basis, on Wednesday, October 23. Bidders must state the percentage yield they will accept to two decimal places. The coupon will be set, after the auction, to the 1/8 of one percent which is nearest to the average yield on accepted tenders and which produces an average price at or below par. The payment and delivery date for the notes will be November 6, 1974; payment may not be made by credit to Treasury tax and loan accounts.

The 227-day bills will be auctioned on the conventional price basis on Tuesday, October 29. The payment and delivery date will be November 4; payment may not be made by credit to Treasury tax and loan accounts. These bills may not be used in payment of Federal income taxes due June 15, 1975.

Department of the TREASURY NEWS

ASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE October 15, 1974

TREASURY'S 227-DAY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for $1,500,000,000, or thereabouts, of 227-day Treasury bills, to be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided. The bills of this series will be dated November 4, 1974, and will mature June 19, 1975 (CUSIP No. 912793 WZ5) 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 one-thirty p.m., Eastern Standard time, October 29, 1974. Tenders will not be received at the Department of the Treasury, 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.

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.

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Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. 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 or Branch in cash or other immediately available funds on November 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 bills (other than life insurance companies) issued hereunder must include in his Federal 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.

Department of the Treasury 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 October 15, 1974

TREASURY TO AUCTION $1.0 BILLION OF NEW NOTES

The Treasury will auction under competitive and noncompetitive bidding $1.0 billion, or thereabouts, of 4-1/2 year notes. The coupon rate for the notes will be determined after tenders are allotted. The notes will be Series D-1979, dated November 6, 1974, due May 15, 1979 (CUSIP No. 912827 DY5).

Competitive tenders for the notes must be expressed in terms of annual yield in two decimal places, e.g., 7.91, and not in terms of a price. Tenders at the lowest yields, and noncompetitive tenders, will be accepted to the extent required to attain the $1.0 billion offered. After a determination is made as to which tenders are accepted, a coupon yield will be determined to the nearest 1/8 of 1 percent necessary to make the average accepted price 100.00 or less. That will be the rate of interest that will be paid on all of the notes. Based on such interest rate, the price on each competitive tender allotted will be determined and each successful competitive bidder will pay the price corresponding to the yield he bid. Price calculations will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final. Tenders at a yield that will produce a price less than 99.001 will not be accepted.

Interest on the notes will be payable on a semiannual basis on May 15 and November 15, 1975, and thereafter on May 15 and November 15. They will be issued in registered and bearer form in denominations of $1,000, $5,000, $10,000, $100,000 and $1,000,000, and in book-entry form to designated bidders.

Tenders will be received up to 1:30 p.m., Eastern Daylight Saving time, Wednesday, October 23, at any Federal Reserve Bank or Branch and at the Bureau of the Public Debt, Securities Transactions Branch, Washington, D. C. 20226; provided, however, that noncompetitive tenders will be considered timely received if they are mailed to any such agency under a postmark no later than Tuesday, October 22. Each tender must be in the amount of $1,000 or a multiple thereof, and all tenders must state the yield, if a competitive tender, or the term "noncompetitive", if a noncompetitive tender. The notation "TENDER FOR TREASURY NOTES" should be printed at the bottom of envelopes in which tenders are submitted.

The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, including the right to accept more or less than $1.0 billion of tenders, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $500,000 or less will be accepted in full at the average price of accepted competitive tenders, which price will be 100.00 or less.

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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 notes applied for. However, bidders who submit checks in payment on tenders submitted directly to a Federal Reserve Bank or the Treasury may find it necessary to submit full payment for the notes with their tenders in order to meet the time limits pertaining to checks as hereinafter set forth. Allotment notices will not be sent to bidders who submit noncompetitive tenders.

Payment for accepted tenders must be completed on or before Wednesday, November 6, 1974, at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt. Payment must be in cash, in other funds immediately available to the Treasury by November 6, or by check drawn to the order of the Federal Reserve Bank to which the tender is submitted, or the United States Treasury if the tender is submitted to it, which must be received at such bank or at the Treasury no later than: (1) Friday, November 1, 1974, if the check is drawn on a bank in the Federal Reserve District of the Bank to which the check is submitted, or the Fifth Federal Reserve District in case of the Treasury, or (2) Wednesday, October 30, 1974, if the check is drawn on a bank in another district. Checks received after the dates set forth in the preceding sentence will not be accepted unless they are payable at a Federal Reserve Bank. Where full payment is not completed on time, the allotment will be canceled and the deposit with the tender up to 5 percent of the amount of notes allotted will be subject to forfeiture to the United States. Payments may not be made through Tax and Loan Accounts.

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 notes bid for under this offering at a specific rate or price, until after 1:30 p.m., Eastern Daylight Saving time, Wednesday, October 23, 1974.

Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
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FOR IMMEDIATE RELEASE October 15, 1974

TEXT OF MESSAGE FROM PRESIDENT FORD TO TRADE AND ECONOMIC COUNCIL DELIVERED AT KREMLIN OCTOBER 15 BY TREASURY SECRETARY WILLIAM E. SIMON

I extend my warmest greetings to the US-USSR Trade and Economic Council on the occasion of the second meeting of its Joint Board.

We can all look back with satisfaction at the progress made during the past three years in developing constructive and mutually beneficial relations between our countries. Shortly after assuming the Presidency, I pledged continuity in our commitment to that course, for there can be no alternative to a positive and peaceful relationship between the Soviet Union and the United States.

Developments in the economic sphere have been particularly striking. Our bilateral trade turnover has grown from less than 200 million dollars in 1970 to over 1.4 billion dollars last year. Negotiations between U.S. firms and Soviet organizations are proceeding on a broad range of projects, including examination of long-term economic cooperation agreements. U.S.-Soviet trade relations were once carried on at arm's length, but now each Government has upgraded its commercial representation in the other's capital, and American firms have opened offices in Moscow.

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As in other areas of our relations, these accomplishments are modest in comparison to future prospects. I am confident we can realize them. To this end I have stressed to our Congress the importance of granting most-favored-nation treatment to imports from the Soviet Union. The removal of barriers to trade, however, is not all that is required. Actual sales transactions will require the positive decisions of business firms. It is for that reason that I particularly welcome the work of the US-USSR Trade and Economic Council, which brings together representatives of U.S. firms with their Soviet counterparts in a spirit of cooperation.

The Council deserves sincere congratulations on the progress it has made during its short life. I am certain that it will make an outstanding contribution to the further development of constructive, fruitful relations between the Soviet Union and the United States.

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

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October 16, 1974

MEMORANDUM TO CORRESPONDENTS:

Attached is a statement submitted to the Senate Permanent Subcommittee on Investigations of the Senate Committee on Government Operations by Secretary Simon today in lieu of personal testimony in response to questions from Senator Jackson in a letter dated October 3, on recycling of surplus funds accruing to oil exporting nations.

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THE SECRETARY OF THE TREASURY
WASHINGTON

OCT 11 1974

Dear Mr. Chairman:

I regret that a long planned meeting of the U.S.-U.S.S.R. Trade and Economic Council in Moscow will prevent me from appearing personally before the Subcommittee on Investigations on October 16 to discuss the recycling of surplus funds accruing to oil exporting nations. This is an issue of widespread world concern and one which I, as chief economic spokesman for the Administration, am happy to examine with the Congress.

You will recall that I submitted to the Subcommittee, in conjunction with my testimony on September 18, a statement on "The Financial and Economic Consequences of the Quadrupling of the Price of Oil." This statement summarized the information available to the Executive Branch concerning the funds accruing to oil exporting nations and the uses to which those funds have been put thus far this year. It contained comments on the capacity of the oil exporting nations to increase their imports so as to obtain payment for their oil in real resources on a current basis. That statement reviewed current recycling problems and the economic outlook for oil importing nations. Very little additional information has become available in the three weeks since that statement was submitted.

In the interval I have, however, discussed the problems created by the oil price increases with officials of many other nations, principally oil importing countries. At the annual meeting of the Boards of Governors of the IMF and the IBRD last week, there was general acceptance of the view I had earlier expressed that the complex of existing financial arrangements, private and official, had worked well to date and that considerable potential remains within the framework of these arrangements. A number of officials expressed concern, however, that these existing channels might not prove fully adequate in the future. Thus it was agreed that there should be examination of the possible need for supplementary arrangements. The new policy level "Interim Committee" of the IMF has asked the Executive Directors of that organization to examine the adequacy of existing arrangements and to report on the possible need for new facilities at the next meeting of the Interim Committee scheduled for mid-January.

You may be sure that I am continuing to follow developments in world financial markets and the financial problems facing individual countries with the greatest care. My views are set forth in the address which I made to the Governors of the IMF and the IBRD on October 1. You may wish to place the text of this address in the record. But a number of the specific questions raised in your letter of October 3 cannot be answered. We must recognize that OPEC countries are not prepared to inform fully the United States Government, other countries, or international agencies as to the nature and location of their investments throughout the world or their future plans for imports of goods and services. Furthermore, several of your questions ask for projections of future developments that cannot validly be made. The lack of comprehensive, detailed information on OPEC investments in other countries does not, however, prevent us from formulating the necessary policy decisions.

In order to contribute as much as possible to your hearings, however, I have asked my staff to prepare responses to your specific questions insofar as information is available. I would be happy to have these staff responses, which are attached, included in the record of the hearings.

The Comptroller of the Currency, Mr. James Smith, has participated in the preparation of the responses to the questions concerning the international activities of U.S. banks and concurs in the statements made.

In transmitting these responses, I would like to stress a point I made in stating my views on the oil price problem to the Subcommittee on September 18. Lower oil prices are in the long-run interests of both producer and consumer nations. Oil price increases have fanned inflation, adversely affected living standards, distorted economies and created payments problems. They have brought oil exporting countries exceptionally high incomes in the short run but also the danger of a drastic erosion of their income in the long run. Oil prices will come down, and the sooner they come down the less will be the damage to the world economy.

Again, Mr. Chairman, may I express my regret in being unable to appear in person before your Subcommittee. I hope the information we are providing contributes to better understanding of one of the central problems of the world economy today.

Sincerely yours,

William E. Simon

Enclosures

QUESTION: I.

What are the short, middle and long-term financial and economic consequences for the U.S. and other industrialized oil consuming nations of importing oil at current OPEC prices, and what are the consequences for the less developed countries?

A. What are the current rates of inflation, by country, for industrialized oil consuming nations and for the less developed countries? What are the projected rates of inflation for these countries?

ANSWER:

The financial and economic consequences of the oil price increase were described in Secretary Simon's statement to the Subcommittee of September 18. Data on current rates of inflation in various countries are provided in Table 1, from the International Monetary Fund's publication, International Financial Statistics. Information on projected rates of inflation is not available for most countries. Projections prepared by the Organization for Economic Cooperation and Development for seven major industrial countries are provided in Table 2.

Table 1

Changes in Consumer Prices

Index Numbers: 1970 = 100 | **Per Cent Change in 12 Months***

Monthly Data

							1973			1974						
1967	**1968**	**1969**	**1970**	**1971**	**1972**	**1973**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**	**July**
							Industrial Countries										
86.0	89.6	94.4	100.0	104.3	107.7	114.4	7.9	8.4	8.8	9.3	10.1	10.2	10.2	10.7	11.1	11.5	**United States**
85.2	89.2	94.0	100.0	109.4	117.2	128.0	10.0	10.3	10.6	12.0	13.2	13.5	15.2	16.0	16.5	....	**United Kingdom**
																	Industrial Europe
90.4	93.0	95.8	100.0	104.7	111.3	119.7	7.0	7.9	7.9	8.1	8.5	8.9	9.8	9.6	10.2	....	Austria
90.3	92.8	96.2	100.0	104.3	110.0	117.7	6.8	6.7	7.3	7.5	8.4	9.5	10.4	11.6	12.6	13.7	Belgium
83.9	90.6	93.9	100.0	105.8	112.8	123.3	10.3	11.3	12.6	14.4	13.6	13.8	14.2	14.3	....	....	Denmark
85.1	89.0	94.4	100.0	105.5	111.7	119.9	8.0	8.4	8.4	10.3	11.5	12.2	13.2	13.5	13.9	....	France
93.4	94.9	96.7	100.0	105.3	111.1	118.8	6.5	7.4	7.8	7.4	7.6	7.2	7.1	7.2	6.9	6.9	Germany
91.6	92.8	95.3	100.0	104.8	110.8	122.8	11.1	11.4	12.6	13.2	14.2	15.2	15.5	15.4	16.6	19.3	Italy
86.6	89.9	96.5	100.0	107.5	115.9	125.2	7.9	8.0	8.2	8.1	8.8	9.2	8.9	8.8	8.9	....	Netherlands
84.7	87.7	90.4	100.0	106.2	113.9	122.4	7.4	7.7	7.6	8.5	8.9	9.0	8.8	8.7	8.2	8.8	Norway
89	91	93	100	107	114	122	7	8	8	8	10	11	10	8	....	....	Sweden
92.0	94.1	96.5	100.0	106.6	113.7	123.6	9.5	10.8	11.9	11.6	10.0	9.6	8.8	9.9	9.6	9.8	Switzerland
89.0	92.6	96.8	100.0	102.9	107.8	116.0	8.6	9.3	9.1	9.1	9.6	10.4	9.9	10.9	11.4	11.3	**Canada**
83.7	88.3	93.3	100.0	106.3	111.4	124.5	13.2	14.9	17.2	20.7	23.6	21.7	23.3	21.3	21.7	....	**Japan**
							Other Developed Areas										**Other Europe**
88	94	97	100	106	114	126	13	13	15	15	16	17	18	18	18	....	Finland
94.4	94.8	97.1	100.0	103.0	107.5	123.8	23.2	29.3	30.6	33.5	33.5	33.4	32.7	31.9	30.2	31.7	Greece
64	72	88	100	107	117	141	....	29	....	....	32	....	....	43	....	....	Iceland
82.2	86.0	92.4	100.0	108.9	118.4	131.8	....	12.6	....	....	13.4	....	....	16.3	....	....	Ireland
92.4	94.2	96.4	100.0	102.3	105.8	113.9	6.5	5.9	6.2	5.7	6.1	6.1	5.9	5.7	5.7	....	Malta
81.4	86.4	94.0	100.0	111.9	123.9	139.9	16.6	17.0	19.0	19.3	23.2	28.7	26.7	25.5	....	....	Portugal
88.2	92.6	94.6	100.0	108.2	117.2	130.6	13.9	13.8	14.2	14.0	14.2	15.7	16.6	16.4	15.3	....	Spain
....	86.7	93.7	100.0	115.7	129.2	149.1	17.7	17.1	16.7	....	....	....	....	....	....	....	Turkey
81	85	90	100	115	135	162	17	17	21	22	20	19	19	18	19	20	Yugoslavia
																	Australia, N. Z., S. Af.
91.0	93.4	96.2	100.0	106.0	112.2	122.9	....	13.2	....	....	....	....	....	....	....	....	Australia
85.8	89.5	93.9	100.0	110.4	118.0	127.7	....	....	10.2	....	....	....	....	....	....	....	New Zealand
91.2	93.1	96.1	100.0	105.7	112.5	123.3	9.3	10.2	10.2	9.0	9.4	9.7	9.6	9.7	....	....	S. Africa
							Less Developed Countries										**Latin America**
70	82	88	100	135	213	344	52.4	44.7	43.7	29.4	22.4	14.3	....	....	....	....	Argentina
89.2	94.1	96.2	100.0	103.6	110.3	145.1	51.7	24.6	34.7	....	....	....	....	....	....	....	Bolivia
55	67	82	100	120	140	158	12	13	14	16	19	22	25	27	....	....	Brazil
46	58	75	100	120	213	966	528	529	508	529	652	699	746	670	....	....	Chile
80.3	85.0	93.6	100.0	109.0	124.6	153.0	18.1	17.7	21.1	25.0	26.4	27.8	24.1	18.6	17.0	....	Colombia
89.4	93.0	95.6	100.0	103.1	107.8	....	....	....	....	....	....	....	....	....	....	....	Costa Rica
95.4	95.5	96.3	100.0	104.3	112.5	129.5	18.1	17.1	17.3	15.3	15.2	17.2	16.6	12.1	....	....	Dominican Rep.
85.8	89.4	95.2	100.0	108.4	117.0	132.2	19.9	17.5	20.5	16.4	22.8	26.7	29.7	28.3	....	....	Ecuador
95.0	97.5	97.3	100.0	100.5	102.0	108.5	8.4	8.8	7.9	9.1	13.2	13.4	....	....	....	....	El Salvador
93.9	95.6	97.7	100.0	99.5	100.1	113.9	24.0	21.6	17.5	21.2	9.3	9.5	12.5	8.0	....	....	Guatemala
93.1	95.5	97.2	100.0	101.8	105.5	110.8	1.4	5.5	5.1	7.6	9.1	7.5	10.6	11.5	12.6	....	Honduras
80.9	85.7	91.1	100.0	106.7	112.9	134.6	26.2	24.9	29.6	30.4	29.1	29.8	28.8	28.9	29.0	....	Jamaica
89.7	91.7	95.1	100.0	105.8	111.1	123.6	14.8	15.1	20.3	21.3	23.0	22.2	22.8	22.6	....	....	Mexico
97.9	98.6	100.8	100.0	104.9	114.6	129.2	9.9	13.5	14.2	21.0	26.7	30.2	27.2	29.0	26.4	....	Paraguay
75.3	89.6	95.2	100.0	107.1	114.5	125.4	12.4	14.0	13.7	14.5	16.1	15.6	16.3	16.8	....	....	Peru
87.9	95.2	97.5	100.0	103.5	113.1	129.8	20.0	23.9	24.3	21.6	21.2	22.0	23.0	24.5	22.7	....	Trinidad-Tobago
32	71	85	100	124	218	430	94.7	78.0	77.5	....	....	....	....	....	....	....	Uruguay
94.0	95.2	97.6	100.0	103.2	106.1	110.5	4.9	5.5	5.7	5.2	5.6	5.6	5.4	5.3	6.1	....	Venezuela
																	Middle East
92.0	95.4	97.7	100.0	104.2	109.2	117.7	10.4	11.0	9.8	11.6	15.9	17.0	17.7	....	....	....	Cyprus
89.7	93.2	96.3	100.0	103.1	105.3	....	....	....	....	....	....	....	....	....	....	....	Egypt
94.4	95.0	98.3	100.0	104.2	110.9	121.8	16.3	14.1	12.9	11.1	11.0	13.4	14.0	15.7	17.6	....	Iran
88.7	90.6	95.8	100.0	103.6	109.0	114.3	3.1	5.3	7.0	5.7	5.9	3.9	9.5	8.7	9.6	....	Iraq
90.1	92.0	94.2	100.0	112.0	126.4	151.6	21.7	24.9	26.4	28.5	37.5	....	....	....	....	....	Israel
87.1	86.8	93.6	100.0	119.7	129.4	142.9	9.5	13.5	18.6	17.0	17.2	....	....	....	....	....	Jordan
93	97	96	100	105	106	127	20.8	23.4	24.1	13.5	....	....	....	....	....	....	Syria
																	Other Asia
86.3	91.9	96.5	100.0	102.6	107.5	121.6	26.9	31.0	29.6	37.9	61.1	63.0	58.5	53.3	52.2	....	China, Rep.
91	94	95	100	103	109	128	21	23	24	25	25	28	28	....	....	....	India
72.5	80.6	88.7	100.0	112.4	125.6	129.4	2.8	5.2	7.3	11.3	17.7	21.6	24.5	24.2	23.9	....	Korea
98.7	98.5	98.1	100.0	101.6	105.0	115.9	15.5	17.8	18.2	18.3	21.9	23.9	21.2	19.2	....	....	Malaysia
94.4	94.3	95.7	100.0	107.7	117.2	143.8	31.3	35.5	29.4	32.1	....	....	....	....	....	....	Pakistan
83.8	85.7	87.4	100.0	114.6	126.3	140.2	16.8	23.5	27.3	26.7	32.9	37.6	36.4	36.6	38.5	....	Philippines
83.1	87.9	94.4	100.0	102.7	109.2	119.7	14.0	14.1	14.4	12.6	13.0	13.4	14.1	14.2	11.5	....	Sri Lanka
95.1	97.1	99.1	100.0	102.0	106.0	118.4	12.6	14.5	16.5	18.7	19.9	21.4	25.4	28.4	....	....	Thailand
47	61	73	100	118	148	214	52	57	59	63	64	68	67	68	66	....	Viet-Nam
																	Other Africa
81.6	89.1	94.3	100.0	102.6	116.4	131.9	192	7.2	18.4	11.4	....	....	....	....	....	....	Ghana
83.1	87.5	91.4	100.0	98.5	98.8	109.7	14.5	12.6	14.8	16.1	15.9	19.6	....	....	....	....	Ivory Coast
85.3	89.0	96.1	100.0	104.5	105.6	....	....	....	....	....	....	....	....	....	....	....	Libya
95.5	95.8	98.7	100.0	104.1	108.0	112.5	9.1	8.8	10.5	14.9	....	....	....	....	....	....	Morocco
80.2	79.9	87.8	100.0	116.1	119.3	....	....	....	....	....	....	....	....	....	....	....	Nigeria
93.5	93.9	97.7	100.0	102.6	106.2	114.0	11	12	13	12	14	16	17	18	....	....	Senegal
94.9	85.4	96.2	100.0	101.4	112.7	128.9	9.0	18.2	19.1	24.1	29.9	29.0	....	....	....	....	Sudan
92.7	95.0	98.9	100.0	105.7	107.9	112.7	3.5	3.6	6.9	10.1	5.8	1.9	—.6	—.3	....	....	Tunisia
85.9	95.1	97.5	100.0	160.0	111.6	118.2	8.1	8.0	8.1	8.4	10.2	9.2	....	....	....	....	Zambia

* Computed over corresponding month of preceding year.

Source: <u>International Financial Statistics,</u>
International Monetary Fund

Table 2

OECD ESTIMATES

Consumer Prices in Seven Major Countries a/

Percentage changes, seasonally adjusted
at annual rates, estimates and forecasts

	Average 1959-60 to 1970-71	From previous year			From previous half-year				
					1973		1974		1975
		1972	1973	1974	I	II	I	II	I
Canada	2.2	3.5	5.6	10	4.9	8.7	11 1/2	8	7 1/4
United States	2.4	2.6	5.3	10	5.4	7.9	11 1/2	9 1/4	7 1/2
Japan	5.6	4.9	11.8	24 3/4	10.3	19.2	29 3/4	20 1/4	15
France b/	4.1	6.2	7.3	14	6.2	9.8	15	16	14
Germany	2.8	5.6	7.2	8 1/2	6.8	7.7	7 3/4	11 1/4	9 1/4
Italy b/	3.9	5.7	10.8	19	12.1	11.0	19 1/2	25	18
United Kingdom	3.5	6.7	8.6	15	8.5	9.3	16 1/2	18 1/2	12
Total of above countries c/	3.2	4.1	7.2	13 1/4	6.9	10.0	14 3/4	13	10 1/4

a/ National accounts implicit price deflator
b/ Consumer price index
c/ 1973 weights and exchange rates

Source: Economic Outlook, Organization for Econmic Cooperation and Development
July 1974

QUESTION: I.A.1

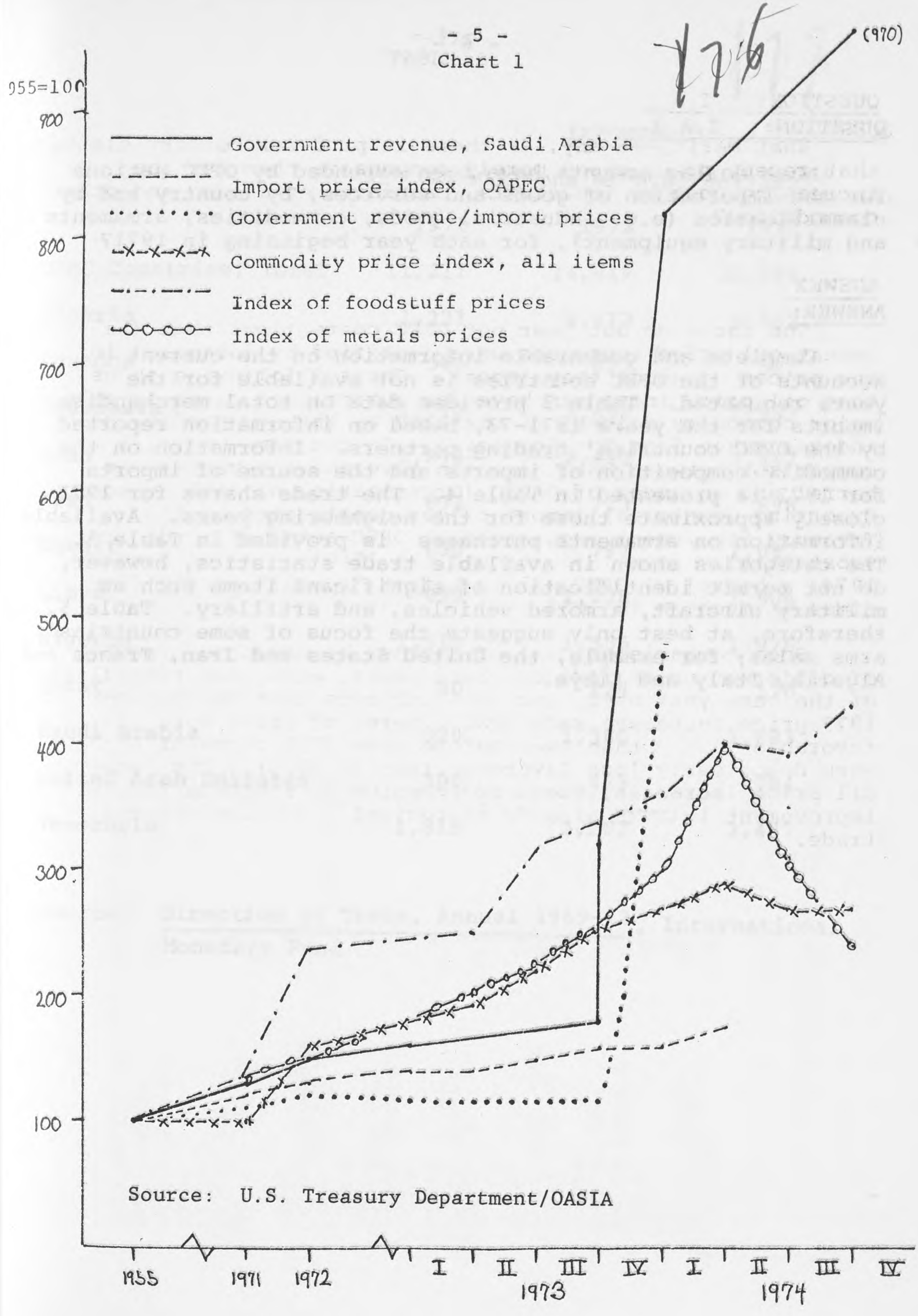
What merit, if any, is there in producer country claims that recent price rises merely compensate them for the increasing cost of foodstuffs, manufactured goods, and other commodities?

ANSWER

The facts do not bear out OPEC contentions that the recent oil price increases were justified by increases in the prices of goods they import. Chart 1 following shows that oil price increases have far outstripped rises in other major commodity prices, as measured by three commodity price indexes taken from The Economist. In the same chart, a comparison between Saudi Arabian government revenues per barrel and an index of OAPEC (Organization of Arab Petroelum Exporting Countries) import prices constructed by the Treasury Department suggests that OPEC terms of trade improved substantially from 1955 through the 1960's. As of January 1974, a barrel of OPEC oil in effect "bought" nearly five times as much as in 1955.

Such comparisons can, of course, be based on a number of different price indices, base years, etc. But regardless of the base year used, our data indicate that the October 1973 price increases made OPEC's terms of trade more favorable than ever before (pre-1955 terms of trade were doubtlessly less favorable than in 1955). The January oil price increases, then, represented an enormous further improvement in OPEC's already historically favorable terms of trade.

Chart 1



Source: U.S. Treasury Department/OASIA

QUESTION: I.A.2

What dollar amounts have been expended by OPEC nations for the importation of goods and services, by country and by classification (e.g. industrial goods, commodities, armaments and military equipment), for each year beginning in 1971?

ANSWER:

Complete and comparable information on the current accounts of the OPEC countries is not available for the years requested. Table 3 provides data on total merchandise imports for the years 1971-73, based on information reported by the OPEC countries' trading partners. Information on the commodity composition of imports and the source of imports for 1972 is presented in Table 4. The trade shares for 1972 closely approximate those for the neighboring years. Available information on armaments purchases is provided in Table 5. The categories shown in available trade statistics, however, do not permit identification of significant items such as military aircraft, armored vehicles, and artillery. Table 5, therefore, at best only suggests the focus of some countries' arms sales; for example, the United States and Iran, France and Algeria, Italy and Libya.

TABLE 3

IMPORTS

(In millions of U.S. dollars)

	1971	1972	1973
OPEC Countries, Total	11,211	14,919	20,088
Algeria	1,221	1,472	2,342
Ecuador	340	317	517
Indonesia	1,110	1,458	2,783
Iran	1,871	2,410	3,442
Iraq	694	713	898
Kuwait	650	797	1,042
Libya	699	1,038	1,904
Nigeria	1,511	1,505	1,876
Qatar	80	124	170
Saudi Arabia	920	1,380	1,893
United Arab Emirates	300	423	784
Venezuela	1,815	2,202	2,437

Source: Direction of Trade, Annual 1969-73, International Monetary Fund

TABLE 4

Percentage Distribution of Imports of OPEC Countries, by Category, by Country, 1972

	Total	Consumption Goods	Manufactured Goods	Raw Materials	Machinery & Transport	Other
Total OPEC	100	14	29	12	42	3
United States	20	3	3	2	10	2
Canada	2	--	--	--	--	--
Japan	13	--	7	1	5	--
United Kingdom	10	--	3	1	6	--
West Germany	10	--	3	1	6	--
France	8	1	2	1	4	--
Italy	7	--	3	--	3	--
Other West. Eur.	11	2	3	1	4	--
Other	19	6	6	2	4	--
Algeria	100	16	28	14	43	--
United States	7	2	--	--	4	--
Canada	2	2	--	--	--	--
Japan	2	--	1	--	1	--
United Kingdom	6	--	1	--	4	--
West Germany	16	--	5	1	10	--
France	34	3	9	5	16	--
Italy	11	--	6	2	4	--
Other West. Eur.	18	3	7	3	5	--
Other	4	4	--	--	--	--
Ecuador	100	14	26	16	42	1
United States	46	11	12	5	18	1
Canada	2	--	1	--	--	--
Japan	13	--	5	1	6	--
United Kingdom	6	1	1	1	3	--
West Germany	11	--	2	3	4	--
France	3	--	1	--	2	--
Italy	3	--	1	--	1	--
Other West. Eur.	12	--	3	2	6	--
Other	5	3	--	3	--	--

Table 4, Cont'd

Percentage Distribution of Imports of OPEC Countries, by Category, by Country, 1972 (Cont'd)

	Total	Consumption Goods	Manufactured Goods	Raw Materials	Machinery & Transport	Other
Indonesia	100	15	23	19	40	1
United States	21	6	2	4	8	--
Canada	1	--	--	--	--	--
Japan	42	1	16	5	18	--
United Kingdom	3	--	--	1	3	--
West Germany	8	--	1	1	5	--
France	2	--	--	--	--	--
Italy	1	--	--	--	--	--
Other West. Eur.	7	1	1	2	4	--
Other	15	6	1	6	2	--
Iran	100	10	29	10	44	7
United States	20	3	2	1	9	6
Canada	1	--	--	--	1	--
Japan	12	--	6	1	4	--
United Kingdom	9	--	2	1	6	--
West Germany	15	--	4	2	10	--
France	5	--	1	--	3	--
Italy	5	--	1	--	3	--
Other West. Eur.	11	--	4	1	5	1
Other	21	5	8	2	5	--
Iraq	100	19	33	14	34	1
United States	3	--	--	--	1	--
Canada	--	--	--	--	--	--
Japan	4	--	2	--	2	--
United Kingdom	9	--	2	1	5	--
West Germany	4	--	--	1	2	--
France	10	1	2	1	6	--
Italy	4	--	1	--	3	--
Other West. Eur.	15	2	3	1	9	--
Other	51	16	21	8	5	--

Table 4, Cont'd

Percentage Distribution of Imports of OPEC Countries, by Category, by Country, 1972 (Cont'd)

	Total	Consumption Goods	Manufactured Goods	Raw Materials	Machinery & Transport	Other
Kuwait	100	21	39	7	33	--
United States	16	2	2	1	11	--
Canada	--	--	--	--	--	--
Japan	17	--	9	--	7	--
United Kingdom	10	2	3	1	5	--
West Germany	8	--	2	1	5	--
France	4	--	2	1	1	--
Italy	5	--	3	--	1	--
Other West. Eur.	9	2	3	1	2	--
Other	32	14	15	2	--	--
Libya	100	19	25	9	44	2
United States	8	--	2	--	6	--
Canada	--	--	--	--	--	--
Japan	5	--	3	--	3	--
United Kingdom	10	--	3	1	6	--
West Germany	10	1	2	1	7	--
France	12	2	2	--	8	--
Italy	29	2	12	4	10	1
Other West. Eur.	10	3	3	2	2	--
Other	15	9	--	3	3	--
Nigeria	100	10	35	12	40	1
United States	8	1	1	--	4	--
Canada	1	--	--	--	1	--
Japan	8	--	4	--	3	--
United Kingdom	25	1	7	4	12	1
West Germany	10	--	2	2	6	--
France	5	1	1	--	3	--
Italy	3	--	1	--	3	--
Other West. Eur.	12	3	4	1	4	--
Other	27	3	14	4	7	--

Table 4, Cont'd

Percentage Distribution of Imports of OPEC Countries, by Category, by Country, 1972 (Cont'd)

	Total	Consumption Goods	Manufactured Goods	Raw Materials	Machinery & Transport	Other
Qatar	100	19	24	7	48	1
United States	9	--	1	--	7	--
Canada	--	--	--	--	--	--
Japan	11	--	6	--	4	--
United Kingdom	21	2	5	1	13	--
West Germany	5	--	2	--	4	--
France	6	1	2	--	4	--
Italy	2	--	1	--	1	--
Other West. Eur.	7	1	1	--	3	1
Other	38	16	6	3	12	--
Saudi Arabia	100	24	25	9	41	3
United States	27	4	3	1	17	2
Canada	1	--	--	--	--	--
Japan	21	--	12	--	8	--
United Kingdom	10	1	2	1	4	--
West Germany	7	--	2	1	4	--
France	4	--	1	--	1	--
Italy	5	--	1	--	3	--
Other West. Eur.	10	3	3	1	3	--
Other	16	14	--	2	--	--
United Arab Emirates	100	13	42	6	36	3
United States	14	--	3	--	10	--
Canada	--	--	--	--	--	--
Japan	19	--	13	--	6	--
United Kingdom	14	1	3	1	8	--
West Germany	3	--	1	--	2	--
France	1	--	--	--	1	--
Italy	1	--	--	--	--	--
Other West. Eur.	5	2	1	--	1	--
Other	43	9	21	3	8	2

Table 4, Cont'd

Percentage Distribution of Imports of OPEC Countries, by Category, by Country, 1972 (Cont'd)

	Total	Consumption Goods	Manufactured Goods	Raw Materials	Machinery & Transport	Other
Venezuela	100	9	26	15	49	1
United States	43	6	8	6	21	1
Canada	7	--	1	--	4	--
Japan	8	--	5	--	3	--
United Kingdom	5	1	1	1	3	--
West Germany	10	--	3	2	6	--
France	4	--	1	--	1	--
Italy	6	--	2	--	4	--
Other West. Eur.	11	1	4	2	4	--
Other	6	--	2	2	3	--

Notes:
1. Details may not add to totals because of rounding.
2. A dash (--) indicates a negligible amount of imports.
3. Other Western Europe excludes data for Greece, Iceland, Ireland, Portugal and Turkey.

Source: OECD Trade Statistics

TABLE 5

PARTIAL DATA FROM OFFICIAL TRADE STATISTICS RELATING TO OPEC COUNTRIES' PURCHASES OF ARMAMENTS FROM OECD COUNTRIES

1972

(Million US $)

IMPORTING COUNTRY	EXPORTING COUNTRY					
	United States	Canada	West Germany	France	Italy	Other Western Europe*
TOTAL OPEC	175.437	.002	.206	.052	20.841	24.852
Algeria	.070	--	--	.048	--	.001
Ecuador	.298	--	.074	--	--	.026
Indonesia	1.956	--	.034	--	.001	.001
Iran	148.813	--	.003	--	3.265	24.528
Iraq	--	--	--	--	--	--
Kuwait	--	--	--	--	.173	--
Libya	1.422	--	--	--	13.823	--
Nigeria	.031	--	--	.001	--	--
Qatar	--	--	--	--	.428	--
Saudi Arabia	18.382	--	.003	--	.605	.001
United Arab Emirates	--	--	.001	.003	.440	--
Venezuela	4.465	.002	.091	--	2.106	.295

*Does not include Portugal, Greece, Turkey, Ireland, or Iceland.

NOTE: Data for the United States are the difference between total exports to the indicated countries and the exports included in SITC 0 through 9 in OECD trade statistics. This difference corresponds to the Special Category exports included in official US export totals. Data for France are from official French trade statistics. The Canadian, West German, Italian, and Other Western Europe data are SITC 951 (Firearms, munitions, military items) from OECD trade statistics.

QUESTION: I.A.3

What are the projected dollar amounts to be expended by the OPEC nations on imports, by country and by classification, for the years 1974, 1975 and 1976?

ANSWER:

Because of the enormous increase in the OPEC countries' liquid assets, uncertainties over future oil consumption and oil prices, and uncertainties about the speed and nature of real adjustments in both the oil exporting and the oil importing countries, projections of OPEC country imports are not feasible.

QUESTION: I B.

What are the present and anticipated future trade deficits for industrailized oil consuming nations and the less developed countries, by country, at current and prospective rates of inflation?

1. To what extent and in what amount do increased oil prices account for these deficits?

ANSWER:

The U.S. is likely to have a trade deficit in the second half of 1974 approaching $5 billion, with some further increase in the deficit expected in 1975. OECD estimates of trade balances for selected other industrial countries are provided in Table 6. Similar projections of trade balances are not available for most developing countries; U.N. estimates of current account balances for selected developing countries are provided in Table 7. (The effect of the oil price increases on countries' trade balances is impossible to determine accurately. Any assessment must take account not only of the direct impact of such price increases on oil consumption and oil import volumes but also of increases in exports to oil exporting countries and of changes in trade flows caused by indirect effects of the oil price increases in the importing countries -- e.g., higher prices for exports with a high petroleum content, and reduced levels and growth of national income.)

Table 6

OECD July 1974 Estimates of Trade Balances
($ billions, f.o.b.)

Country	1974	First Half 1975
Canada	1.7	0.7
Japan	-2.3	0.2
Germany	20.3	8.5
France	-4.1	-1.5
U.K.	-12.2	-5.2
Italy	-10.1	-3.4

Source: Economic Outlook, OECD, July 1974

Table 7

U.N. September 1974 Estimates of Current Account Balances for Selected Developing Countries

(Millions of dollars)

	Current Account Deficit[a]	
	1974	1975
Bangladesh	612	657
Central African Republic	39	49
Chad	68	80
Dahomey	23	30
Democratic Yemen	70	--
El Salvador	78	--
Ghana	-7	85
Guinea	92	70
Guyana	74	48
Haiti	50	67
Honduras	84	104
India	1,919	2,270
Ivory Coast	153	203
Kenya	197	274
Lesotho	87[b]	95[b]
Madagascar	88	82
Mali	53	46
Mauritania	26	28
Niger	31	23
Pakistan	485	513
Senegal	133	109
Sierra Leone	70	62
Somalia	56	59
Sri Janka	152	185
Sudan	90	122
United Republic of Cameroon	43	67
United Republic of Taznzania	229	218
Upper Volta	82	73
Yemen	54	--
Total	5,044[c]	5,524[c]

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[a] Minus sign indicates surplus.

[b] Balance on trade account.

[c] Sum of listed amounts, excluding Lesotho.

Source: United Nations

QUESTION I.C.

What volume of world petroleum exports, if any, is being made for soft currencies or in barter arrangements, and what is the outlook for expansion of such exports to less developed countries (and illiquid developed nations)?

ANSWER

In general, the oil producing countries have adhered to OPEC policies and avoided granting price discounts to consumers. Instead, they have relied largely on aid arrangements to afford some relief to selected developing countries. Nonetheless, several barter arrangements are under negotiation, but our knowledge about their terms is extremely limited. Given the small number of developing countries engaged in these negotiations, the potential volume of oil involved will be in all likelihood less than 1 percent of annual world oil exports.

There are to date no reports of oil purchase agreements involving repayment in soft currencies, although several developing countries may be purchasing oil at discounted prices.

QUESTION: I.D.

What have been the net volume of oil producer funds, by country, flowing into various money markets: Eurodollar deposits, U.S. bank deposits, Federal securities, industrial bonds and commercial paper, etc.?

1. What are the projected volumes of such funds, by country and by market, for the years 1974, 1975, and 1976?
2. What, if any, mechanisms exist to monitor the influx of these funds under the existing regulatory scheme and what future monitoring mechanisms are contemplated?
3. What impact in these markets has the influx of oil producer funds had on interest rates, and what future impact is anticipated?

ANSWER:

Estimates of OPEC investments made between January 1 and August 31, 1974, and available detail on the form and location of these investments are provided in Tables 8-11.

OPEC surpluses are now accruing at a rate of roughly $5 billion per month. Future rates of accrual will, of course, be dependent on oil prices, the volume of oil purchased from OPEC countries by the oil importing nations, the capacity of the OPEC countries to absorb imports of goods and services, and the ability of the oil importing countries to supply the goods which OPEC countries seek to buy.

We cannot project with sufficient validity to be useful the volume of oil producer funds which may be placed in any particular money market in the future. Our expectations as to OPEC investment strategies were discussed in the statement submitted to the Committee on September 18.

Oil importing countries maintain widely varying systems to monitor capital imports. Even with the more comprehensive systems, it is often impossible to identify with certainty the ultimate beneficial owner of invested funds. In virtually all countries, banks are allowed to preserve confidentiality with respect to the identity of their depositors, and other types of assets can be purchased through nominees.

Countries in which the major financial centers are located generally obtain reports in varying detail from banks, other financial institutions, brokers and corporations concerning the magnitude of changes in their liabilities to foreign residents. By this means they monitor the flows of various types of foreign funds. These flows are usually compiled by country of the nominal investor, and there is no assurance that the nominal investor is the actual owner of the asset.

In recognition of the need for more and better information on foreign investment in the United States than is now available, the Administration has supported S.2840 and companion legislation in the House which would require the Treasury and Commerce Departments to undertake a comprehensive study of existing foreign portfolio and direct investment in the United States. In anticipation of the passage of this legislation, the Treasury and Commerce Departments are making preparations for a comprehensive survey to determine the extent of foreign investment in the United States as of the end of 1974. In addition, these agencies, in accordance with the provisions of the pending legislation, (1) will study the adequacy of information, disclosure, and reporting requirements and procedures on foreign investment in the United States and (2) will make recommendations on methods whereby information and statistics on foreign direct investment can be kept current.

A number of agencies have continuing responsibility to collect data on investment inflows. The Bureau of Economic Analysis of the Department of Commerce collects data, on a continuing basis, on foreign direct investment in any U.S. business enterprise, including commercial firms and real estate. Intermediaries must report on behalf of foreign owners.

The Treasury Department collects data on a monthly basis from U.S. brokers, dealers and bankers on transactions in U.S. and foreign long-term securities, both for their own account and for customers; also, U.S. firms are required to report to the U.S. Treasury direct dealings in securities with foreigners.

The Securities and Exchange Commission has reporting requirements applicable to all investors, and no distinction is made between foreign and domestic investors. Any investor who acquires more than 5 percent of the beneficial ownership of a class of registered securities of a corporation must file a report identifying the investor, his residence and employment, the source of funds for the acquisition and the purpose of the transaction. In addition, an issuer of registered securities must disclose the identity and holdings of each person, whether domestic or foreign, who owns of record or beneficially 10 percent or more of any class of its stock.

Under the industrial security program, defense contractors handling classified material are required to inform the Department of Defense whenever foreign investors own more than 6 percent of their equity. Moreover, a number of Federal regulatory agencies obtain information on the industries for which they have jurisdiction. These regulatory agencies include the Civil Aeronautics Board, Federal Communications Commission, Federal Maritime Commission, Federal Power Commission, Federal Trade Commission, Interstate Commerce Commission, and the Securities and Exchange Commission. While the reporting criteria used by these regulatory agencies are not necessarily uniform, an enormous amount of detailed information regarding corporate ownership by U.S. and foreign interests is obtained. A description and evaluation of these separate reports is found in "Disclosure of Corporate Ownership" (Senate Doc. 9362, March 4, 1974) prepared for the Committee on Government Operations.

With respect to future mechanisms for monitoring foreign investment, the Securities Exchange Commission, beginning November 12, 1974, will conduct public hearings concerning, inter alia, the beneficial ownership of securities and the takeover and acquisition of U.S. corporations by foreign and domestic investors. In its proceeding the Commission will examine whether there is adequate disclosure to the investing public of the ownership of voting rights and other benefits of ownership of the securities of publicly owned corporations, and whether there is adequate disclosure and guidance respecting acquisitions and takeovers. The objectives of the proceeding will include development of information on the necessity or desirability of recommending to the Congress legislation with respect to the possible lowering of the reporting and disclosure thresholds, and determination whether there is a need to provide for other means of reporting beneficial ownership in publicly held corporations.

In the light of the widespread interest in foreign investment in the United States, the Executive Branch intends to undertake a study of the adequacy of the present data-acquisition programs conducted by various U.S. Government agencies. In the course of this study, we should be able to discern any significant gaps in our present reporting systems, to determine to what extent confidentiality provisions prevent disclosure of specific information, and to ascertain what remedial action, if any, is necessary.

The influx of oil producer funds has probably not affected the level of U.S. interest rates, since the Federal Reserve has been able to offset the impact through open market operations. Since the level of Euro-dollar rates tends to parallel that of domestic U.S. rates, the influx of funds has also probably not significantly affected the level of Euro-dollar rates. While the spread between Euro-dollar rates and U.S. rates did widen this summer, most observers attribute this phenomenon to the effects of the collapse of the Bank Herstatt and related market uncertainties, rather than to recycling of oil producer revenues.

The term and risk structures of U.S. and Euro-dollar interest rates have, however, been altered. With respect to the term structure, this reflects the different preferences of oil producing and oil consuming countries. Oil producing countries have favored short-term, liquid assets, while the oil consuming countries with current-account deficits have generally sought to borrow on a long-term basis. These preferences have reduced short-term interest rates in relation to long-term rates.

The risk structure of interest rates has been altered, in part, by the strains imposed on banks from the redistribution of deposits from oil consumers to oil producers, which have concentrated their deposits in the largest banks. Many smaller and even some large banks have had a problem in attracting deposits and redeposits. To compete for funds, these banks have had to pay an interest premium. It is possible that the structural effects may lessen over time as oil producing countries widen their selection of investment instruments, both with respect to maturity and risk, for a given set of interest rates.

Table 8

ESTIMATED OPEC INVESTMENTS
MADE BETWEEN JANUARY 1 AND AUGUST 31, 1974
(billions of dollars)

In the United States	7
(Of which over $4 billion, perhaps $5 billion in U.S. Treasury bills and other marketable government securities)	
In the United Kingdom	3
(British government securities and other sterling assets)	
In other European Countries and Japan	2
(Largely direct placement loans to official or quasi-official agencies, some real estate and private securities)	
International institution bonds	1/2
LDC's	2 1/2
Euro-currency markets	13
Total	28

Source: U.S. Treasury Department/OASIA

Table 9

Recent Monthly Changes in Bank and Money-Market Assets of Oil Producing Countries in the United States

(Increase (+) or decrease (-); in $ million)

1974	Venezuela	Indonesia	"Other Asia" a/	"Other Africa" a/	TOTAL
Jan.	-8	53	104	29	178
Feb.	176	-11	-110	207	262
Mar.	100	66	249	291	706
Apr.	561	64	497	165	1287
May	-49	-85	-56	203	13
June	460	37	687	237	1421
July	-108	606	1062	101	1660
Aug.	400	-77	838 b/	215	1376 b/
JAN.-AUG. TOTAL	1531	653	3270 b/	1449	6903 b/

Source: Treasury Bulletin and Treasury foreign exchange reports.

a/ "Other Asia" and "Other Africa" groupings include and are strongly dominated by the Middle-Eastern and African OPEC countries respectively -- for which individual data have not up to now been collected on a month-by-month basis .

b/ Includes $200 million purchase of medium-term U.S. agency bonds.

Table 10

Recent Monthly Changes in Official Sterling Holdings of Oil Producing Countries in the United Kingdom

(Incr. (+) or decr. (-); in $ million equivalents)

1974:	Banks and Money Market Deposits a/	Treasury Bills	SUBTOTAL	Medium Term UK Govt. Securities	TOTAL
Jan.	434	75	509	100	609
Feb.	-374	121	-253	235	-18
Mar.	-59	247	188	61	249
Apr.	1235	67	1302	12	1314
May	-637	460	-177	-12	-189
June	-35	197	162	51	213
Jan.-June Total	564	1167	1731	447	2178

Source: Bank of England Quarterly Bulletin, September 1974

a/ Includes banks, local authorities, and hire-purchase finance companies.

Table 11

Recent Monthly Changes in Euro-Currency Holdings of Oil Producing Countries in Banks in United Kingdom

(Incr. (+) or decr. (-); in $ million equivalent)

1974:	Venezuela	Middle East Oil Producers a/	Algeria	Nigeria	Indonesia	TOTAL
Jan.	1	500	51	-8	-23	522
Feb.	18	874	77	-18	3	953
Mar.	21	908	107	-2	-4	1030
Apr.	130	1651	34	1	157	1973
May	-58	984	137	-1	59	1122
June	40	1244	82	0	42	1407
Jan.-June Total	152	6161	488	-28	234	7007

Source: Bank of England *Quarterly Bulletin*, September 1974

a/ Includes Libyan Arab Republic

QUESTION: I E.

Which other industrialized consumer nations and in what amounts, have received substantial surplus funds of oil producing nations?

ANSWER:

Our information on the investment of OPEC funds in other nations is very incomplete. From the information available at this time, we believe other industrial nations that have received substantial inflows of capital from OPEC countries include the U.K., France and Japan. Some funds have apparently been invested in Germany.

All of the foreign exchange receipts of OPEC countries that are not spent for imports of goods or services must be invested somewhere in the non-OPEC countries in some form. The OPEC countries have an extremely wide choice of types of investment and of geographic locations for their investments. Presumably each OPEC government or official agency receiving the foreign exchange will make its own independent choice as to where it places its money and in what type of instrument.

QUESTION: I F.

What proportion of future surplus oil revenues will be offset by the export of goods and services from consumer nations to the oil producing countries?

1. What is the nature and estimated dollar volume of these projected exports by consumer nations?

2. To what extent and in what amounts will oil producers absorb surplus revenues in internal economic development?

ANSWER:

As indicated in the answer to question I.A.3., we are unable to provide the projections requested.

QUESTION: II.

To what extent are existing private financial institutions sucessfully accommodating the near-term recycling of surplus oil revenues?

ANSWER:

The bulk of oil-producer accumulations to date has been placed with banks and other private financial institutions. The private financial markets have, in our view, proved broadly adequate to the immediate task of recycling and have shown ingenuity in devising new techniques to adapt to and cope with strains arising from the massive increase in capital flows.

QUESTION: II.A.

What is the dollar amount of surplus funds that has been recycled by the international banking system, i.e., transferred from oil producing to oil consuming nations, during the last year, and what are the amounts expected to be recycled in the coming year?

ANSWER:

Private estimates of overall growth in the Euro-currency market, broadly defined, are provided in Table 12. It is estimated that between January and August 31, 1974, some $13 billion of OPEC investments was placed in the Euro-currency markets (see Table 8).

Tables 13-15 provide estimates of medium and long-term international lending activities. There are no estimates as to the proportion of these loans taken up directly or indirectly by the OPEC countries.

TABLE 12

Recent Estimates of Worldwide Euro-Banking Market

(Estimated foreign currency liabilities of banks in major European countries plus Bahamas, Canada, Japan, and Singapore; in $ billions)

Outstanding liabilities at end of:		Gross	Net[a]
1973:	June	235	125
	Sept.	265	140
	Dec.	295	155
1974:	Mar.	330	170
	June	360	185
	July	370	190

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[a] Adjusted to exclude double counting that results from interbank redepositing.

Source: World Financial Markets, Morgan Guaranty Trust Company

Table 13

Available Monthly Indicators of International Borrowing on Medium- and Long-Term Capital Markets

(in $ million)

	Euro- and Other Non-US Markets			MEMO: U.S. Market	
1974	New Issues of Euro- and Other Foreign Bonds	Med-Term Euro-Bank Loan Commitments	TOTAL	New Foreign Bond Issues (Mainly Canada)	Change in Long-Term US-Bank Claims
Jan.	0	2150	2150	327	(-) 59
Feb.	239	1784	2023	144	51
Mar.	309	2898	3207	189	176
Apr.	64	4854 a/	4918 a/	273	613
May	279	4989 b/	5268 b/	50	46
June	154	2317	2471	556	294
July	128	1290	1418	336	(-) 24
Aug.	176	1293	1469	28	(-) 30
Jan.-Aug. Total	1349	21575	22924	1903	1067

Sources: Bond issues: World Financial Markets, Morgan Guaranty Trust Company
Euro-bank commitments: IBRD
US-bank claims: Treasury Dept.

a/ Of which $1.7 billion to Italy and $1.5 billion to France, leaving $1654 and $1718 million, respectively, for other.

b/ Of which $2.5 billion to UK, leaving $2489 and $2768 million, respectively, for other.

Table 14

New International Bond Issues
1974
(millions of dollars)

	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Total Jan-Sept
Foreign Bonds issued in the United States	327	144	189	273	50	556	336	28	325	2,228
Foreign companies	25	25		52	50	147	77	18		394
State enterprises	124	35	64	35	-	100	184	10	150	702
Governments	30	84	125	185	-	309	75	-	175	783
Int'l Org.	148	-	-	-	-	-	-	-	-	148
Euro and Foreign Bonds Issued outside the U.S.	-	239	309	64	279	154	128	176	115	1,464
Companies	-	104	59	50	94	63	56	125	64	615
State enterprises	-	43	108	11	69	19	72	10	51	383
Governments	-	91	34	3	3	72	-	33	-	235
Int'l Org.	-	-	108	-	113	-	-	8	-	229
Total	327	383	498	337	329	710	564	204	440	3,792

Source: *World Financial Markets*, Morgan Guaranty Trust Company

Table 15

Medium Term Euro-Currency Credits
1974
(millions of dollars)

	Jan.	Feb.	March	April	May	June	July	Aug.	Jan.-Aug.
Developed Countries	1,335	1,146	1,734	3,584	4,135	1,102	572	924	14,532
Less Developed Countries	815	638	1,164	1,270	854	1,215	718	369	7,043
	2,150	1,784	2,898	4,854	4,989	2,317	1,290	1,293	21,575[1/]

[1/] Not included is $869 million lent to non-members of IBRD, mainly Eastern Europe

Source: IBRD

QUESTION: II.B.

What effect has the process of recycling surplus oil revenues had upon the stability of the international banking system?

ANSWER:

Concern for the soundness of the international banking system has stemmed largely from well publicized instances of difficulties of a few banks in the U.S. and abroad. Yet those banks' financial difficulties have been the result of factors unrelated to the large increase in oil exporter investment funds in the international banking system. They arose in an atmosphere of rapid inflation and rising interest rates and were associated with management problems.

In fact, banks and other financial institutions have generally performed well in handling sharply increased capital flows and in adapting to the new situation. But there have been, and will be, strains.

One source of strains on international banks is the oil exporters' preference for short-term placement of their excess revenues, while banks conventionally lend longer term. In this situation prudently managed banks have become more selective in accepting placements, thus reinforcing a recent tendency on the part of oil exporters to make longer-term placements with banks and to arrange direct placements with borrowers outside the banking system.

For the international banks, shifts in ownership of monetary assets from oil importing to exporting countries have probably also resulted in a greater concentration or ownership of deposits. This development also gives banks reason for caution.

At the same time, oil exporters have become more selective in the choice of banks with which to deal, seeking out the larger and more secure financial institutions. These banks have been able to obtain funds from oil producers at interest rates below the market. At the same time, smaller banks have experienced difficulties in obtaining funds, leading to a "tiering" of the interbank market.

Finally, banks now appear more selective in their lending practices. While this greater selectivity may increase the difficulties facing some borrowers, this practice also serves to insulate the international banks from the strains created by the higher oil prices.

QUESTION: II.B.1

What specific regulatory mechanisms exist to evaluate the performance, solvency, and risk exposure of foreign branches, subsidiaries and consortia engaged in the recycling process abroad?

ANSWER:

The central bank governors of countries that are members of the Group of Ten* agreed to intensify the exchange of information between central banks on the activities of banks operating in international markets and, where appropriate, to tighten regulations governing foreign exchange operations. They also reviewed the problem of the lender of last resort in the Euro-markets and concluded that means where available for that purpose and could be used whenever necessary. The Federal Reserve Board may wish to comment further on this question.

In the United States, responsibility for the evaluation of the performance, solvency, and risk exposure of the foreign operations of U.S. banks is shared between the Federal Reserve Board and the Comptroller of the Currency, if the U.S. bank is a national bank, as most of the large U.S. banks are. The Federal Reserve will comment on its regulatory procedures; the following comments are directed to the activities of the Comptroller of the Currency.

Since its creation in 1863, the Office of the Comptroller of the Currency has been an integral part of the national banking system and has been responsible for the examination of national banks on a regular basis. These examinations include the evaluation of all the bank's assets, both domestic and foreign. Examinations also include an evaluation of the soundness and solvency of the bank and, for banks engaged in international business, an evaluation of the country risks taken by each bank.

During the 1960's, U.S. banks expanded their overseas operations dramatically. As of January 1, 1967, only seven national banks had overseas branches; in six years the number had increased to 83 national banks with 581 foreign

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*Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom and the United States. Switzerland, while not a member, also participates.

branches. Concomitantly with this expansion in overseas banking, the Comptroller's Office adapted its supervisory activities. During the late 1960's, the Comptroller's Office developed detailed instructions and forms to be used in obtaining information from foreign branches and foreign affiliates of U.S. banks, and requirements as to supportive data were notified to national banks in early 1970. Generally these data include the names, amounts and credit information pertaining to all investments and to 70-80 percent of all extensions of credit. The examiner's report on the foreign operations of a bank is combined with a simultaneous report on the domestic operations to give a statement of the examined bank's overall position.

Direct examinations are also made overseas. More than 150 bank examiners from the 14 domestic regions form a cadre for periodic overseas detail to conduct examinations of original records, collateral documents, borrowers' financial statements, operational and internal control procedures at the foreign facility, and examination of foreign exchange activities. Since the first of this year, direct assignments of examiners to the international departments of 100 of the largest U.S. banks reinforce the effectiveness of the overseas examination. Moreover, in the interests of economy, and in view of the concentration of branches of U.S. banks in London, the Comptroller's Office in September 1972 assigned three bank examiners to the American Embassy in London to make examinations of London banking offices in coordination with the examinations being conducted in the 14 domestic regions.

Other countries have similarly tightened their examination procedures. For example, the German authorities, who had earlier established new procedures and guidelines to limit foreign exchange transactions by banks, have established a "liquidity bank" and have proposed revisions to their banking legislation. The Luxembourg authorities and the Bank of England have also developed more precise guidance for indigenous banks and foreign facilities, in particular consortia banks, to protect the safety and soundness of their banking systems.

QUESTION: II.B.2.

To what extent do present banking and governmental arrangements assure the continued liquidity of banks facing a potentially abrupt withdrawal of short-term petrodollar deposits?

ANSWER:

As indicated above, central bankers recently reviewed this question and concluded that means were available for this purpose and could be used as necessary. To ensure the liquidity of banks, however, is not the same as ensuring the solvency of individual institutions.

QUESTION: II.B.3.

What surveillance or control mechanisms exist to prevent unduly risky foreign exchange transactions by U.S. banks?

ANSWER:

Apart from the authority available to the bank regulatory agencies--the Comptroller of the Currency and the Board of Governors of the Federal Reserve System--there are no control mechanisms which could be used to prevent unduly risky foreign exchange transactions by U.S. banks. With regard to surveillance mechanisms, the Treasury Department is about to put into effect a new reporting requirement under which banks in the United States, including the agencies and branches of foreign banks, and the foreign branches and subsidiaries of U.S. banks, will provide weekly and monthly reports on their position in nine major foreign currencies. These reports are provided for in the September 1973 amendment to the Par Value Modification Act, and arise from concern over the position of the dollar in the exchange markets rather than concern over the risk exposure of individual banks. The weekly reports will enable us to monitor current developments in the foreign exchange markets as they might affect the exchange value of the dollar, and the monthly reports will give a more comprehensive view of the banks' positions in major foreign currencies. The monthly reports are sufficiently detailed so that they will be of some value to the bank regulatory agencies by providing a general indication of a bank's foreign exchange exposure and of changes in its activities in these currencies.

QUESTION: II.C.

For what period can the private banking sector, unassisted, meet the credit demands of oil consuming nations within the limits of prudent risk exposure?

1. What is the potential for an adverse impact on the domestic operations of U.S. banks in the absence of assistance for recycling surplus oil revenues?

2. What monetary and fiscal policies are needed to complement the recycling effort and will these precipitate further deterioration in the domestic economy?

ANSWER:

We do not expect the private banking sector alone to meet the credit needs of oil consuming countries. As explained in more detail elsewhere, this role has been played by a complex of mechanisms, and we expect that numerous channels for financial flows will continue to be utilized in the future. It is reasonable to anticipate that private channels will continue to play a major role.

So long as banks follow prudent banking practices and manage their operations carefully, there is no reason to expect their domestic operations to be adversely affected by the problems of recycling. Banks are not pressured to lend against their own judgment. We have encouraged our banks and our bank regulators to exercise vigilance in the face of abrupt increases in the volume of international capital flows. The banks themselves are very much aware of the need to follow sound banking practices. There is a need to be sure that capitalization is adequate to deal with substantially expanded volumes of operations, and banks will have to be particularly careful in evaluating their foreign lending, but these are problems to which banks are well accustomed. These problems are not peculiar to foreign lending.

There is no reason to expect that significant adjustments in U.S. monetary and fiscal policies will be undertaken for the purpose of the recycling effort. The Federal Reserve System takes into account capital inflows and outflows in executing its monetary policies, but both fiscal and monetary policy must continue to be directed at controlling inflation within the context of appropriate growth rates.

QUESTION III.

To what extent do existing statutory authorities and legal regulations compel or enable Federal agencies, foreign central banks, or other world organizations to provide funding and assistance to private financial institutions facing problems of short-term liquidity, or imminent collapse and bankruptcy?

A. What provision has been made, by or between government agencies, to assist the foreign branches of U.S. banks with such problems?

B. What provision has been made, by or between government agencies, to assist foreign subsidiaries of U.S. banks and multinational consortia in which U.S. banks participate?

1. To what extent and under what circumstances will government agencies assist these foreign branches, subsidiaries and consortia, and what domestic or international repercussions might such assistance entail?

2. What domestic or international consequences would follow the denial of such assistance?

C. What international agreements, if any, clarify the responsibility of the host and home countries with regard to subsidiary and multi-national financial institutions?

D. What problems have accompanied the expansion of foreign operations by U.S. banks, and what specific regulatory adjustments have been required to deal with these difficulties?

E. What new proposals have been or are being studied to assure adequate supervision of foreign banking activities, and when will additional regulations, if any, be promulgated?

ANSWER:

The response to this question will be provided by the Federal Reserve Board.

QUESTION: IV.

What policy or set of policies, bilateral or in cooperation with international authorities, has been devised to alleviate the plight of consumer nations unable to secure funds in private money markets?

ANSWER:

A variety of channels, both bilateral and multilateral, is available and has been used to assist those countries which may not have adequate access to private markets to meet their needs. Currently available information is summarized below:

-- The IMF oil facility, presently having about $3.5 billion in resources borrowed from oil producers, has begun operations and has made loans totaling $0.7 billion to 23 countries, developed and developing. In addition, net drawings on the IMF's regular resources have amounted to about $1.7 billion thus far in 1974. Substantial amounts remain available through the oil facility, and through the Fund's regular facilities -- which can be supplemented by the existing "General Arrangements to Borrow," presently totaling some $6.6 billion.

-- The Federal Reserve swap network, totaling some $20 billion, remains virtually unused.

-- In June, the major industrial countries agreed in principle that gold could be used as collateral for international loans, and pursuant to this agreement Germany has extended a $2 billion credit to Italy.

-- The EC member states have agreed to provide Italy a further extension of an existing $1.9 billion loan, and discussions are underway concerning a possible medium-term credit.

-- The EC is also considering a joint borrowing from oil exporters to assist member states with their financing needs.

-- The oil producers have made direct loans to a number of developed countries, including Iranian credits of $1.2 billion to the U.K. and of $1 billion to France. Press reports suggest that Japan has also obtained a credit of $1 billion from an oil producing country.

-- The OPEC countries also have made commitments totaling $18 billion for the year ending September 1, 1974, to developing countries and multilateral lending institutions. Although the terms of these commitments vary greatly and disbursements will probably extend over a number of years, we believe that $3 billion (including $500 million in purchases of IBRD bonds) is a reasonable estimate of actual disbursements for the 1974 calendar year to August 31, 1974.

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QUESTION: IV.A.

What is the impact on industrial consumer nations of allowing existing market conditions to determine credit allocations?

ANSWER:

The key question is not the impact of particular financial arrangements but the impact of the price increases themselves on the real incomes and living standards of the oil importing countries.

We believe the private financial markets have performed well in abosrbing large flows of funds from the oil producers and allocating those funds among countries. The markets should be expected to continue to perform this function for the bulk of the flows. However, the private markets are not the exclusive means of recycling oil related capital flows. Inevitably, the private financial markets played the major role in the immediate aftermath of the oil price increases. More recently, government-to-government channels have increasingly been opened, and they may well play a more important role as time goes by. New financing organizations have also been established by OPEC countries, and the IMF and World Bank have redirected their efforts to provide additional ways of shifting funds from lenders to borrowers.

Although existing financial arrangements have responded reasonably well to the strains of the present situation, and we believe they will continue to do so, we recognize that this situation could change. If there is a clear need for additional international lending arrangements, the United States will support their establishment. Since the range of possible future problems is a wide one, and many problems that can be envisaged will never come to pass, what is urgently needed now is careful preparation and probing analysis of the adequacy of existing mechanisms and proposals for new supplemental arrangements.

QUESTION: IV.B

What is the impact on the less developed countries of allowing existing market conditions to determine credit allocation?

ANSWER:

The answer to the foregoing question applies generally to the better off developing countries. However, it is generally recognized that the private market and existing official mechanisms are not adequate for the most seriously affected and poorest of the developing countries. These countries have limited debt service capacities and cannot afford to assume greater debt burdens. These countries must have access to highly concessional or grant financing if they are to avoid serious set-backs to their development programs and economic well-being. This issue is to be given urgent attention by the newly created joint IMF/IBRD Ministerial Committee on the Transfer of Real Resources.

QUESTION: IV.C

Which of these industrialized or less developed countries if any, are confronted with the potential of near-term bankruptcy or financial collapse?

ANSWER:

At present, the major industrial and better off developing countries are obtaining the financing they need from the existing complex of private and official sources. While situations can arise in which individual countries face serious problems in borrowing to cover oil and other needs, it is impossible to say what future conditions may be and which of the more advanced countries may face difficulties. For that reason all must stand prepared to take cooperative action should the need arise. Much will ultimately depend on the degree of success in curbing inflation, conserving energy use and developing alternative energy supplies, and the future course of oil prices.

With regard to the most seriously affected developing nations, the danger is very serious disruption of economic activity, production, development and growth. As noted in the answer to the previous question, this problem is being given priority attention. The United Nations has identified some twenty-nine (29) countries which may not be able to finance a desirable level of imports during the current year. These are Cameroon, Central African Republic, Chad, Kenya, Lesotho, Malagasy Republic, Mali, Mauritania, Niger, Sierra Leone, Somalia, Sudan, Tanzania, Upper Volta, Bangladesh, India, Pakistan, Sri Lanka, Haiti, Senegal, El Salvador, Guyana, Honduras, Dahomey, Ghana, Ivory Coast, Guinea, the Yemen Arab Republic, and the Democratic Republic of Yemen.

QUESTION: IV.C.1.

What emergency or contingency planning exists, whether bilateral or in cooperation with international authorities, to assist countries in the event of such bankruptcy or financial collapse?

ANSWER:

Existing channels to assist more advanced countries in meeting their financing need have been described earlier. U.S. views on the question of new arrangements is contained in the responses to questions IV.A. and IV.E.

Emergency or contingency plans to assist the most seriously affected developing countries will be discussed in the newly established Joint Ministerial Committee on the Transfer of Real Resources, as noted above, as well as in the United Nations. The President announced a three point U.S. program: (1) an increase in the value of our food aid, (2) an increased emphasis in our traditional and continuing foreign aid program upon improving agricultural capacity in developing nations, and (3) an international effort regarding food reserves.

QUESTION: IV.C.2.

In what amounts might assistance be required and through which institutions would it be channeled?

ANSWER:

The UN estimates the additional critical requirement for the most seriously affected developing countries will be in the range of $2 billion in each of 1974 and 1975 as a result of the oil price increases.

A variety of channels is being used to funnel resources to these countries. The oil exporters have made commitments of concessional assistance totaling $1.9 billion over a period of years, of which as much as $700 million may be disbursed in the short-run. The U.S. will be providing almost $1 billion in ordinary and fast-disbursing assistance. New aid pledged for disbursement through the U.N. Emergency Operation is in excess of $100 million, consisting of contributions from Venezuela, Algeria, Iceland and the EC. The EC has promised $150 million, of which $30 million will be available for disbursement by the UN. The EC has indicated willingness to increase its commitment to up to $500 million (although it is not clear that this is all new incremental assistance), contingent upon the pledge of proportional quantities from the U.S., the oil exporters and others. The IMF oil facility could provide up to a maximum of $1.7 billion in credits to the most seriously affected developing nations if sufficient funds are available to the facility, though the terms of loans from the oil facility do not meet the need for consessional financing on the part of the most seriously affected developing countries.

Other donor bilateral assistance is continuing and, in some cases, increasing. In the aggregate, the reaction to the identified need has been formidable, but according to most estimates, including our own, insufficient to the requirement. We estimate that after all known commitments are provided there will remain a gap of somewhat less than $1 billion spread among a small number of countries.

QUESTION: IV C 3.

What impact would the giving of aid have for the economies of the donors and what consequences would follow the denial of such assistance?

ANSWER:

The provision of aid by the U.S. and other industrial countries is intended to accomplish a transfer of real resources from the donors to the receipients and, other things being equal, should mean an increase in the total demand for the former's goods and services for export to the latter. However, if our estimates of $1-2 billion of assistance required are accurate, this aid will have only a marginal effect on total demand in the donor countries. Aid from the major oil producing countries should have no significant impact on the donors' economies, since it would simply represent a change in the oil producers' portfolios of financial assets.

If means were not available for individual countries to finance their higher-cost oil imports they could be forced to take measures to reduce the growth of domestic income and the level of both oil and non-oil imports. The countries least able to obtain financing or adjust to higher oil import costs are typically those already at the lowest levels of development and per capita income. Without outside assistance, some of them might be pushed below subsistence levels of income.

Action on a significant scale by countries of a substantial size disigned to reduce imports in the face of large oil deficits would have important secondary effects, in that a resultant contraction of world trade would be reflected in the reduced exports of other countries, which might in turn be forced to take deflationary or competitive steps to offset the deterioration of their own external positions. This general problem is by no means exclusive to the developing countries and was noted in the following terms by the Committee of Twenty at a meeting in Rome immediately following the oil price increases:

"Members of the Committee began by reviewing important recent developments, including the large rise in oil prices and the implications for the world economy. They expressed serious concern at the abrupt and significant changes in prospect for the balance of payments structure.

"They recognized that the current account surpluses of oil producing countries would be very greatly increased, and that many other countries -- both developed and developing -- would have to face large current account deficits. In these difficult circumstances the Committee agreed that in managing their international payments, countries must not adopt policies which would merely aggravate the problems of other countries. Accordingly, they stressed the importance of avoiding competitive depreciation and the escalation of restrictions on trade and payments. They further resolved to pursue policies that would sustain appropriate levels of economic activity and employment, while minimizing inflation. They recognized that serious difficulties would be created for many developing countries and that their needs for financial resources will be greatly increased; and they urged all countries with available resources to make every effort to supply these needs on appropriate terms. The Committee agreed that there should be the closest international cooperation and consultation in pursuit of these objectives. They noted that the International Monetary Fund, the World Bank, and other international organizations are concerned to find orderly means by which the changes in current account positions may be financed, and they urged that these organizations should cooperate in finding an early solution to these questions, particularly in relation to the difficult problems facing non-oil producing developing countries."

QUESTION: IV.D.

What special programs, bilateral or under the auspices of international authorities, currently provide credit to oil consuming nations and what dollar amounts have been extended under them?

ANSWER:

These programs have been described in the answers to other questions.

QUESTION: IV.E.

What new programs are anticipated and what estimated dollar amounts will be required to meet the future credit needs of oil consuming nations?

1. What analysis has been undertaken to assess the adequacy of an expanded special oil facility under IMF supervision, and what conclusions and policy options are suggested thereby?

2. What analysis has been undertaken to assess the feasibility of organizing the proposed Fund for Capital Recycling, and what conclusions and policy options are suggested thereby?

3. What analysis has been undertaken to determine the need for other cooperative international action, such as a special petrodollar recycling facility massively funded by thirty or more billions of dollars?

4. What analysis has been undertaken of proposals to use the financial leverage of the economically strongest oil consuming nations, including a possible limitation of incoming oil surpluses to a level not exceeding the deficits of their own oil balance of trade?

ANSWER:

The question is impossible to answer with any precision or confidence at this time. The prospective size of oil exporters' surpluses is marked by great uncertainty concerning oil prices, energy conservation and diversification in the oil-importing countries, the pace of import expansion in the oil exporting countries and the rate of real adjustment to higher oil prices that individual oil-importing countries will want to achieve. The possible need for new, supplemental credit programs is subject not only to these uncertainties, but also to questions about the geographical distribution of oil producer investments in the future and the extent to which the existing private and official channels will be adequate to handle any needed redistribution of funds.

These questions were a focal point of the discussion at the IMF/IBRD annual meetings two weeks ago. It was generally recognized that the private financial markets and other existing financial mechanisms had worked well to date, and that considerable potential remained within the framework of these arrangements. There was also a widely expressed concern that existing channels might not prove fully adequate in the future, and that preparatory work on possible supplementary arrangements should be undertaken. Several proposals were put forward for further study and elaboration, including expansion of the special IMF oil facility, a separate new IMF oil facility, an oil-importing country mechanism and a joint consumer-producer investment agency.

The needed analysis of the problem and of these and other proposals is under way. At its inaugural meeting October 3, the new policy-level "Interim Committee" of the IMF requested the Executive Directors to consider as a matter of urgency the adequacy of existing private and official arrangements and to report on the possible need for additional arrangements, including through the IMF. The Executive Directors will consider this question on a priority basis and are expected to report in time for the next meeting of the Interim Committee, scheduled for mid-January 1975.

QUESTION: V.

What are the long-term implications of recycling and the concomitant transfer of wealth, and which nations will bear the ultimate burden?

ANSWER:

The increase in oil prices poses a real economic burden on oil importing countries, which must transfer an increased portion of their national output to pay for imported oil. It is the unwillingness of countries to assume this real cost which will lead them to undertake energy conservation and development of alternative supplies in order to reduce their dependence on imported oil priced at unreasonable levels. Even if countries borrow now to pay for oil imports, they will continue to be faced with the real economic costs as their accumulated debts are serviced and paid.

QUESTION: V.A.

In what amounts and on what terms have oil producing nations extended credit to the consuming nations, whether directly or through international agencies?

ANSWER:

Available information on the aggregate amount of oil producer credits and direct loans to industrial countries is incorporated in the answers to preceding questions. Examples of some of the major credits from OPEC countries, principally to developing countries, include the following.

Loans to the IMF oil facility totaling the equivalent of about $3 billion, from Abu Dhabi, Iran, Kuwait, Oman, Saudi Arabia, and Venezuela. The IMF pays seven percent interest for the use of these funds over a period of 4-7 years.

In July 1974, the Kuwaiti Parliament formally approved a $3 billion increase in the paid-in capital of its Economic Development Fund (from $340 million to $3.38 billion).

According to Iran's Chief OPEC Delegate, Iran has concluded bilateral agreements involving soft loans of some $1.5 billion over the next three to five years. This assistance is divided between project aid and financing for oil purchases by several developing countries, including India, Pakistan, Afghanistan, Morocco, Senegal, and Jordan.

The charter of the Islamic Development Bank, to be capitalized by oil exporters and others, has been formally approved. It is expected to begin operations in late 1974 with capital of $3 billion. Loans will be extended interest-free.

An Arab Fund for Africa has received pledges of $200 million. Paid-in capital as of mid-July 1974 amounted to $130 million. It will be a revolving fund used to finance the oil purchases of the poorest African countries.

The United Arab Emirates tripled the capital of the Abu Dhabi Development Loan Fund from $169 million to $500 million in May 1974. The UAE government also responded to an appeal by UN Secretary General Kurt Waldheim for emergency assistance to the hardest-hit less developed countries. Foreign Affairs Minister Ghobash pledged that his country will strive to extend bilateral and multilateral grants totaling $400 million during 1974.

OPEC country purchases of IBRD bonds totaled approximately $700 million during the year ending June 30, 1974. Approximately $675 million of this amount involved purchases of World Bank bonds. Generally, the OPEC countries receive near-commerical rates of interest (8%) on these investments.

QUESTION: V.B.

Under what conditions, if any, will oil producing nations share in bearing the risk of defaulted loans made to consumer nations of questionable credit worthiness?

ANSWER:

In the broadest terms, the value of OPEC financial claims depends upon a prosperous world economy and a stable international financial system. There is no way they can avoid this risk, no matter what specific types of protection they seek. They have recognized their interest in a stable financial system and have acted as prudent and conservative investors. On credits provided directly to borrowers or through investments in private markets, the oil producers must assume the risks of defaults as would any other investor. As members of international financial institutions, the oil producers will also assume a proportionate share of any risk these institutions assume.

QUESTION: V.C.

To what extent have oil-induced trade deficits compelled importing nations to adopt mutually damaging trade, investment and monetary policies, and to what extent are such policies anticipated?

ANSWER:

The oil importing nations have in general not sought to offset oil-induced trade deficits by introducing trade, investment and monetary policies which would transfer the burden of adjustment to other oil importers. The major trading countries have instead tried to avoid such measures. (See also answer to question IV.C.3.)

Their commitment to avoid self-defeating beggar-thy neighbor trade policies was given form in the OECD pledge undertaken at the Annual Ministerial Meeting, May 29-30, 1974. The members of the OECD, a group which includes all the major industrialized trading nations, unanimously pledged for one year to avoid recourse (1) to measures of either a general or specific nature to restrict imports or other current account transactions, (2) to measures to stimulate artificially exports or other current account transactions, and (3) to export restrictions contrary to the objectives of the declaration.

In the same spirit the IMF's Committee of Twenty recommended consideration of an amendment to the Articles of Agreement of the Fund to provide that no member government would, without prior IMF approval, introduce restrictions or subsidies on merchandise trade or services for balance of payments reasons. Until such an amendment could be adopted, the Committee of Twenty and the IMF have invited countries to pledge themselves on a voluntary basis not to introduce or itensify trade or other current account measures for balance of payments purposes that are subject to the jurisdiction of the GATT, or to recommend them to their legislatures, without a finding by the Fund that there is balance of payments justification for such measures. The U.S. and a number of other countries have adhered to the pledge and we expect it to take effect shortly.

The major trade restricition taken to correct a balance of payments deficit in part due to oil-price increases is Italy's system of import deposits. These deposits are now being phased out.

Other trade restrictive measures have also been taken recently, but they were imposed for reasons other than to correct balance of payments difficulties resulting from oil imports. Examples are Japan's, the European Community's and Canada's import restrictions on beef in response to low domestic prices and world beef surpluses.

There have also been some trade restrictions by less-developed countries at least in part due to oil-induced trade deficits, such as the tariff increases by Brazil, but they have been relatively few and of limited trade impact.

In general, the cooperative and responsible trade, monetary and investment policies of the oil-importing countries have been most encouraging. Countries' behavior to date provides healthy indications of the widespread recognition of the dangers of competitive actions and of countries' determination to resist the pressures for mutually damaging and ultimately self-defeating policies.

QUESTION: V.D.

To what extent will the failure to provide adequate international recycling facilities induce oil exporting nations to reduce future production, and to what extent will the provision of such facilities signify the abandonment of efforts to reduce the price of oil?

ANSWER:

As long as their investments are secure, the OPEC countries have only a limited interest in ensuring that each individual country is able to meet its financing needs. (This interest relates to the impact on demand of retrenchment in oil consumers due to financial difficulties.) With ample opportunities for attractive investments presently available, the financial incentives for oil producers are clearly on the side of production and investment today rather than leaving oil in the ground. Today's $10 per barrel of oil, if left in the ground as an investment alternative to financial assets earning 8 percent, would have to rise in price to $21.59 per barrel by 1984, an unlikely prospect. And the longer uneconomic prices are maintained, the greater the loss will be to consumers and producers alike. In fact, oil producers may well find that oil left in the ground will be unsalable in the future even at lower prices, as consumers seek to protect the investments made in developing new oil supplies and alternative energy sources.

The availability of mechanisms to assist oil importing countries to meet their financing needs will not eliminate the real economic costs of higher oil prices or the incentives to reduce dependence on imported oil. The amounts borrowed today will have to be repaid later in real goods and services.

QUESTION: V.E.

Assuming no agreement upon adequate recycling mechanisms, nor any reduction in the price of oil, what will be the short and long-term impact on the less developed countries and the stability of international social order.

ANSWER:

As noted earlier, the question of assistance for the developing countries, especially the most seriously affected by the oil price rise, is separate from the general financing questions associated with the issue of recycling. The impact of failure to provide the concessionary assistance many developing countries require has been discussed earlier.

Department of the TREASURY NEWS

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FOR IMMEDIATE RELEASE October 15, 1974

MEMO TO THE PRESS: TEXT OF SIMON OPENING STATEMENT AT THE SECOND BOARD MEETING OF THE US-USSR TRADE & ECONOMIC COUNCIL IN MOSCOW

Much has happened since the first meeting of the Joint Board last February in Washington. There have been unprecedented events in the political life of my country.

Many things have not changed however; high among these is the desire of the United States to further the development of peaceful, fruitful relations with the Soviet Union. As President Ford told the Congress shortly after taking office: "To the Soviet Union, I pledge continuity in our commitment to the course of the past three years . . . There can be no alternative to a positive and peaceful relationship between our nations."

We are here today to discuss economic and trade relations between our countries. Nowhere is there more concrete evidence of the progress we are making than in this field. Our bilateral trade is rapidly approaching the three-year goal of $2-3 billion trade turnover which was set at the 1973 Summit. In 1973 alone, US-USSR trade turnover was $1.4 billion. Although total trade is down somewhat this year after the exceptionally large agricultural shipments of 1973, U.S. sales of machinery and equipment products have risen sharply, and USSR exports to the United States have shown a very substantial increase.

Seventeen American firms now have received permission to open accredited offices in Moscow. Eximbank loans for the Soviet Union have increased to 470 million dollars. Impressive contracts have been signed in the last nine months for the Kama River truck plant, the Moscow Trade Center, the fertilizer project, and equipment for gas pipeline development.

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The U.S. commercial office opened for business in Moscow last spring. In addition to smaller exhibits staged in its display area, my government recently sponsored U.S. firms' participation in two major Soviet trade shows (health and plastics manufacturing equipment) and organized a successful solo exhibition of American machine tools in Sokolniki Park.

Our two governments are pledged to continue this momentum. In the long-term agreement signed in June, both formally agreed to facilitate economic, industrial, and technical cooperation and exchange information on economic trends.

Progress has also been made in resolving the policy problems which could inhibit further growth. Soon after entering the White House, President Ford emphasized to Congress the importance he attached to granting most-favored-nation status to the Soviet Union. I look forward to early resolution of the Trade Reform Bill which I believe will bring about satisfactory exim legislation. This will clear the impediments on the path of an expanding trade relationship.

The United States Government will continue to help clear away obstacles to improvement in our economic and commercial relations. In the final analysis, however, the action responsibility for each U.S.-Soviet commercial transaction rests with the private sector of our economy. It is for this reason that we encouraged the formation of the Trade and Economic Council, which brings together officials from your ministries and trading organizations and top management representatives from our firms -- it is these people who are doing the actual work of expanding trade.

As we all know, the Council was formed as the result of a protocol entered into in June of 1973 by Minister Patolichev and my predecessor, Secretary Shultz. It's important, however, to remember that while the Council is the creation of the two governments, on the U.S. side, it has been adopted by the private sector -- our business community. As an Honorary Director of the Council, I am pleased to note that the child of these two governments is healthy and growing at a rapid pace, and I am pleased with the care and upbringing it is being given by the U.S. Government. I voice our appreciation for the support and help given the Council since its inception by the Soviet Government.

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While the role of the Council is to foster and promote the growth of the U.S.-Soviet Trade and Economic relationship and while I am confident that the U.S. Congress will approve legislation so necessary to the normalization of this realtionship, I also envisage that out of this improved relationship will emerge a larger joint economic role for our two countries. Given the extraordinary global economic inter-relationship of all countries, there is a greater than ever need for responsibility and cooperation between nations. It is hard to conceive of a solution fair to all countries large and small in any area of major interest without the full and close cooperation of the US-USSR.

Since February, the Council has developed into a fully functioning organization. Binational staffs are now at work on some sixty major projects in New York and Moscow. The Council has found excellent office space in Manhattan, and yesterday we dedicated the attractive offices on the Shevchenko Embankment. The Subcommittee on Science and Technology concluded a productive first meeting a few days ago in New York.

This is an excellent beginning, but is only a beginning and I am confident that it foreshadows even greater accomplishments in the future as the Council realizes its full potential in the development of fruitful economic relations between our countries.

As an Honorary Director of the US-USSR Trade and Economic Council, I commend my fellow directors and the Council staff for the progress you have made so far. I wish you well in your deliberations at this meeting, and I urge you to work diligently to create an economic fabric between our two countries of so many strands so closely interwoven that not only is there no visible seam, but also that it is so strong as to be virtually unbreakable.

So while we work to intermesh and synchronize our different economic systems, we also work to prepare and strengthen ourselves for jointly addressing in harmony the problems of creating a better world for all countries and all people.

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FOR IMMEDIATE RELEASE October 16, 1974

FOREIGN CURRENCY REPORT FORM REGULATIONS

The Amendment to the Treasury regulations requiring weekly and monthly reports by banks on the Treasury Foreign Currency report forms was published today in the Federal Register. The forms and instructions, as approved by the Office of Management and Budget, will be published in the Register on Monday, October 21. Reports to be filed by non-banks covering their positions in specified currencies will be instituted in the near future.

Initial reports by banks on the new monthly forms are required covering data as of the last business day of November, and on the weekly forms as of December 4, 1974.

The new reports are required by Title II of Public Law 93-110, which amended the Par Value Modification Act, and which required the Treasury to institute new statistical reports of the foreign currency transactions of banks and other business concerns in the United States and of foreign branches and majority-owned foreign subsidiaries of U.S. firms. The reports will furnish information on the activities of large banks and other firms which affect the position of the dollar in the foreign exchange market.

The reports will provide data on the spot and forward positions and assets and liabilities of banks in the United States, including agencies and branches of foreign banks, and of foreign branches and majority-owned foreign subsidiaries of U.S. banks. Reports will be required of positions in nine major currencies (Belgian francs, Canadian dollars, Dutch guilders, French francs, German marks, Italian lire, Japanese yen, Swiss francs, and United Kingdom pounds) and, in the case of reports filed on behalf of foreign branches and subsidiaries of U.S. banks, in U.S. dollars.

The reporting exemptions are intended to limit reporting to major banks which are active in the foreign exchange market. The exemptions will be adjusted at a later date, if necessary, to accomplish this purpose.

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In addition to requiring weekly and monthly reports from banks, the new regulations provide that the Treasury may require special reports when conditions in the exchange market warrant, and may also conduct special surveys related to the data.

An earlier version of the proposed regulations and proposed forms and instructions was published in the Federal Register on June 27, 1974, with provision for written comment. A number of revisions to the proposed forms and instructions were made on the basis of the comments received.

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TITLE 31 -- MONEY AND FINANCE: TREASURY
CHAPTER 1 -- MONETARY OFFICES, DEPARTMENT OF THE TREASURY
PART 128 -- TRANSACTIONS IN FOREIGN EXCHANGE, TRANSFERS OF CREDIT AND EXPORT OF COIN AND CURRENCY

This amendment is issued pursuant to the authority conferred in Title II of Public Law 93-110, 87 Stat. 352, 31 U.S.C. 1141-1143. Notice of the proposed rulemaking was published in the Federal Register (39 FR 23830) on June 27, 1974. The proposed amendments prescribed supplemental reporting requirements relating to foreign currency transactions by large U.S. enterprises and their foreign affiliates to provide additional data on the nature and source of flows of mobile capital. The Department also published on June 27, 1974, notice of proposed reporting forms which would implement the supplemental reporting requirements. A number of comments were received following publication and have been given consideration.

This amendment differs from the published proposed amendment in that it does not include the proposed report forms for nonbanking firms as described in proposed sections 128.35 and 128.36. The proposed report forms for nonbanking firms are being given further study in light of the public comments received thereon. Those forms will be prescribed by a subsequent amendment to Part 128.

The other differences between this amendment and the published proposal reflect comments received.

With respect to confidentiality, the legend on the forms states "Data reported on this form will be held in confidence. (See Part I, Section A of the instructions.)" Pursuant to the legend, data furnished on the forms by individual respondents will not be publicly disclosed, but this data may be included in publicly disclosed aggregates, and may be furnished to other Federal agencies to the extent authorized by the Federal Reports Act, 44 U.S.C. 3501, et seq.

A new section 128.3 has been added to the proposed regulations to clarify further the use to which the data reported on the forms may be put. Section 128.3 provides that the information reported by individual respondents on the new foreign currency report forms and the existing foreign exchange report forms will not be disclosed publicly by the Department of the Treasury or by any other agency having access to the information pursuant to law. The section states that aggregate data derived from reports on these forms may be published or released in a manner which will not reveal the amounts reported by any individual reporting bank or nonbanking firm. Finally, the section provides that the Department may furnish to other Federal agencies data reported on these forms to the extent authorized by the Federal Reports Act.

In addition, several revisions to the proposed bank report forms and instructions were made. These were as follows: (1) the elimination of the requirement to report the percentage of total exchange contracts which were with banks, since such a requirement would have been unduly burdensome; (2) the exclusion from the weekly forms of forward contracts representing hedges of loans and deposits so as to avoid creating a distortion in the reported net position; (3) the exclusion from Forms FC-2 and 2a of local currency assets and liabilities with residents of the host country as irrelevant to the purpose of the forms; (4) the addition of the U.S. dollar to the currencies to be reported on Forms FC-2 and 2a in order to complete the data on branch positions; (5) a reduction in the effective exemption levels so as to insure adequate reporting under current market conditions; (6) the addition of the Italian lira to the foreign currencies to be reported; (7) the inclusion of nonbanking subsidiaries in the reports to be filed by banks, to conform to Federal Reserve practice; and (8) clarification of a number of the definitions.

Section 128.37 providing authority to require special reports has been revised to explain more fully the nature of the special reports that may be required. These reports may include special surveys of components of the foreign currency reports and of related data.

1. Section 128.2 is revised to read as follows:

Sec. 128.2 Reports.

(a) In order to effectuate the purposes of the Emergency Banking Act of 1933 (12 U.S.C. 95a) and Executive Order 6560 of January 15, 1934 (Part 127 of this chapter), and in order that information requested by the International Monetary Fund under the articles of agreement of the Fund may be obtained in accordance with section 8(a) of the Bretton Woods Agreements Act (sec. 8(a) 59 Stat. 515; 22 U.S.C. 286f and Executive Order No. 10033, 14 FR 561; 3 CFR, 1949 Supp.), every person subject to the jurisdiction of the United States engaging (1) in any transaction in foreign exchange; (2) in any transfer of credit between any person within the United States and any person outside of the United States; or (3) in the export or withdrawal from the United States of any currency or silver coin which is legal tender in the United States, shall furnish information relative thereto to such extent and in such manner and at such intervals as is required by report forms and instructions prescribed in Subpart B of this part.

(b) In order to effectuate the purposes of the Emergency Banking Act (12 U.S.C. 95a) and Executive Order 6560 of January 15, 1934 (Part 127 of this chapter), and to provide additional data on the nature and source of flows of mobile capital, including transactions by large United States business enterprises and their foreign affiliates, as required by Title II of Public Law 93-110 (87 Stat. 352), every United States person engaging (1) in any transaction in foreign exchange; (2) in any transfer of credit between any person within the United States and any person outside the United States; or (3) in the export or withdrawal from the United States of any currency or silver coin which is legal tender in the United States, shall furnish information relative thereto to such extent and in such manner and at such intervals as is required by report forms and instructions prescribed in Subpart C of this part. Information shall also be furnished by every United States person or persons with regard to any foreign person controlled by such United States person or persons as provided in Subpart C of this part.

(c) All persons required to report, other than bankers and banking institutions, shall furnish the reports required under Subparts B and C of this part to the Federal Reserve Bank of New York. Bankers and banking institutions shall furnish the required reports to the Federal Reserve Bank of the district in which such banker or banking institution has its principal place of business in the United States. In the event that any person required to report has no principal place of business within a Federal Reserve district, the information shall be furnished directly to the Office of the Assistant Secretary for International Affairs, Department of the Treasury, Washington, D.C. 20220 or to such agency as the Department of the Treasury may designate.

(Title II, Public Law 93-110, 87 Stat. 352 (31 U.S.C. 1141-1143))

2. Section 128.3 is redesignated as section 128.5.

3. A new section 128.3 is added to read as follows:

Sec. 128.3 Use of information reported.

The information reported on the forms required under Subparts B and C will not be disclosed publicly by the

Department of the Treasury or by any other Federal agency having access to the information as provided herein. Data reported on these forms may be published or released in the aggregate in a manner which will not reveal the amounts reported by any individual reporting bank or nonbanking firm. The Department may furnish to other Federal agencies data reported on these forms to the extent permitted by the Federal Reports Act, 44 U.S.C. 3501, et seq.

4. A new section 128.4 is added to read as follows:

Sec. 128.4 Penalties.

(a) Whoever willfully fails to submit a report required under this part may be criminally prosecuted and upon conviction fined not more than $10,000, or, if a natural person, may be imprisoned for not more than ten years, or both. Any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both.

(b) Whoever fails to submit a report required under Subpart C of this part may be assessed a civil penalty not exceeding $10,000.

(Section 2, Emergency Banking Act of 1933, 48 Stat. 1 (12 U.S.C. 95a); Section 203, Public Law 93-110, 87 Stat. 352 (31 U.S.C. 1143))

5. The heading for Subpart B is revised to read as set forth below:

SUBPART B - DESCRIPTION OF FORMS PRESCRIBED UNDER THIS SUBPART

6. A new Subpart C is added to read as follows:

Subpart C -- Description of Forms Prescribed Under this Subpart

Sec. 128.30 Copies.

128.31 Foreign Currency Form FC-1: Weekly report of positions in specified foreign currencies of banks in the United States.

128.32 Foreign Currency Form FC-1a: Monthly report of assets, liabilities, and positions in specified foreign currencies of banks in the United States.

128.33 Foreign Currency Form FC-2: Weekly consolidated report of positions in specified currencies of foreign branches and subsidiaries of United States banks.

128.34 Foreign Currency Form FC-2a: Monthly consolidated report of assets, liabilities, and positions in specified currencies of foreign branches and subsidiaries of United States banks.

128.35 [Reserved]

128.36 [Reserved]

128.37 Special reports.

Authority: Title II, Pub. L. 93-110, 87 Stat. 352 (31 U.S.C. 1141-1143)

SUBPART C - DESCRIPTION OF FORMS PRESCRIBED UNDER THIS SUBPART

Sec. 128.30 Copies.

Copies of the forms described in this subpart with instructions may be obtained from a Federal Reserve Bank or from the Office of the Assistant Secretary for International Affairs, Department of the Treasury, Washington, D.C. 20220.

Sec. 128.31 Foreign Currency Form FC-1: Weekly report of positions in specified foreign currencies of banks in the United States.

On this form bankers and banking institutions in the United States are required to report weekly to a Federal Reserve Bank their positions in the foreign currencies specified on the form, as of the close of business on Wednesday.

Sec. 128.32 Foreign Currency Form FC-1a: Monthly report of assets, liabilities, and positions in specified foreign currencies of banks in the United States.

On this form bankers and banking institutions in the United States are required to report monthly to a Federal Reserve Bank their assets, liabilities, and positions in the foreign currencies specified on the form, as of the last day of business of the month.

Sec. 128.33 Foreign Currency Form FC-2: Weekly consolidated report of positions in specified currencies of foreign branches and subsidiaries of United States banks.

On this form United States bankers and banking institutions are required to report weekly to a Federal Reserve Bank the consolidated positions of their foreign branches and majority-owned foreign subsidiaries in the currencies specified on the form as of the close of business on Wednesday.

Sec. 128.34 Foreign Currency Form FC-2a: Monthly consolidated report of assets, liabilities, and positions in specified currencies of foreign branches and subsidiaries of United States banks.

On this report form United States bankers and banking institutions are required to report monthly to a Federal Reserve Bank the consolidated assets, liabilities, and positions of their foreign branches and majority-owned foreign subsidiaries in the currencies specified on the form as of the last day of business of the month.

Sec. 128.35 [reserved]

Sec. 128.36 [reserved]

Sec. 128.37 Special reports.

At times when prompt or expanded information on current conditions in the foreign exchange market is needed by the Department of the Treasury, special reports may be required at more frequent intervals or at different intervals than those specified on the forms, covering more detailed information than that required by the forms, and covering information related to that required by the forms. Special reports may be required to be submitted by telegraph or other rapid means of communication.

Effective date - This amendment becomes effective on November 29, 1974.

//s// Signed
Charles A. Cooper
Assistant Secretary

Date: OCT 10 1974

Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR RELEASE 6:30 P.M. October 16, 1974

Last month 8.341

Today 7.629

Low since 3/6/74 6.897

TREASURY'S 52-WEEK BILL AUCTION

of 52-week Treasury bills to be dated
ure October 21, 1975, were opened at the
The details are as follows:

BIDS: (Excepting 4 tenders totaling $230,000)

ivalent annual rate 7.604%
ivalent annual rate 7.680%
ivalent annual rate 7.629% 1/

were allotted 11%.

CCEPTED BY FEDERAL RESERVE DISTRICTS:

	d For	Accepted
	,005,000	$ 6,505,000
	,610,000	1,614,920,000
	,255,000	4,255,000
	,515,000	23,395,000
	,565,000	5,055,000
Atlanta	8,235,000	7,335,000
Chicago	445,865,000	240,935,000
St. Louis	30,320,000	5,320,000
Minneapolis	12,255,000	2,255,000
Kansas City	14,610,000	6,510,000
Dallas	23,855,000	13,655,000
San Francisco	222,570,000	70,270,000
TOTALS	$3,577,660,000	$2,000,410,000 2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 8.21%.

2/ Includes $ 89,330,000 noncompetitive tenders accepted at the average price.

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

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FOR RELEASE 6:30 P.M. October 16, 1974

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $2.0 billion of 52-week Treasury bills to be dated October 22, 1974, and to mature October 21, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 4 tenders totaling $230,000)

High	-	92.312	Equivalent annual rate	7.604%
Low	-	92.235	Equivalent annual rate	7.680%
Average	-	92.286	Equivalent annual rate	7.629% 1/

Tenders at the low price were allotted 11%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 23,005,000	$ 6,505,000
New York	2,721,610,000	1,614,920,000
Philadelphia	29,255,000	4,255,000
Cleveland	35,515,000	23,395,000
Richmond	10,565,000	5,055,000
Atlanta	8,235,000	7,335,000
Chicago	445,865,000	240,935,000
St. Louis	30,320,000	5,320,000
Minneapolis	12,255,000	2,255,000
Kansas City	14,610,000	6,510,000
Dallas	23,855,000	13,655,000
San Francisco	222,570,000	70,270,000
TOTALS	$3,577,660,000	$2,000,410,000 2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 8.21%.

2/ Includes $ 89,330,000 noncompetitive tenders accepted at the average price.

For Release On Delivery

STATEMENT OF ALBERT REES, DIRECTOR OF
COUNCIL ON WAGE AND PRICE STABILITY
BEFORE THE JOINT ECONOMIC COMMITTEE
ROOM 1202, DIRKSEN BUILDING
FRIDAY, 10:00 AM, OCTOBER 18, 1974

I am very happy to appear before the Joint Economic Committee today and to provide whatever information I can about our plans for the Council on Wage and Price Stability and the part it can play in helping to restrain inflation.

The Council has had some staff since September 30th. For the first week it was just my secretary and myself. We now have six, including the Deputy Director, Mr. James Blum, who is with me today. We are moving steadily but carefully toward our full complement of about 40 staff members.

Of the seven functions setforth for us in Public Law 93-387, we plan to give particular emphasis to two: first, monitoring wage and price movements in the private sector; and second, studying those policies and practices of the government itself that have the effect of raising costs and prices, and making recommendations for their correction. We choose this emphasis not because the other five functions are unimportant--they most certainly are not -- but because in those areas we share responsibility with other Federal agencies.

In the process of wage price monitoring we expect to get the full voluntary cooperation of labor and industry in providing the information we need to do our job. Where it seems appropriate, we will make vigorous use of our authority to hold public hearings, and to make recommendations based on the findings of these hearings.

On the price side, the President has directed us to give first priority to studying the processing and distribution of food to discover areas where productivity can be raised and costs and prices can be lowered.

The rise in food prices in the past year has has caused hardship for many consumers, especially the poor and the elderly. Within the food area, we are especially concerned at the moment with the price of sugar and of products that use sugar, such as soft drinks, candy, and breakfast cereals.

Other areas of special concern include the rising cost of medical care, including hospital bills, physicians fees, and prescription drugs. A narrower but very timely area of interest is the high price and short supply of antifreeze, and we are looking into that matter right now.

On the wage side, the current negotiations of greatest interest are those affecting the pay of airline pilots and of coal miners. We would like to do anything we can to help see that the settlements reached do not have a serious inflationary impact.

In the area of government operations, the President has asked the Congress to create a National Commission on Regulatory Reform to re-examine the independent regulatory agencies. This means that the primary concern of the Council on Wage and Price Stability will be with the Departments and other agencies of the Executive Branch, with emphasis on actions which have an inflationary impact greater than their social and economic benefits.

Mr. Chairman, thank you for your attention. Mr. Blum and I would be most happy to answer any questions as fully and frankly as we can.

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press inquiries: 202-964-2615

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FOR IMMEDIATE RELEASE October 18, 1974

SUMMARY OF LENDING ACTIVITY
September 30 - October 18, 1974

Federal Financing Bank lending activity for the period September 30 - October 18 was as follows:

-- On October 10, the Bank purchased $2.3 million of notes from the Department of Health, Education and Welfare. The notes were previously acquired by HEW under the Medical Facilities Loan Program. The Bank has purchased $27.6 million of the notes, fulfilling the commitment made by the Bank to HEW on May 24, 1974.

-- On October 11, the Bank closed four transactions with the National Railroad Passenger Corporation (Amtrak). All transactions are guaranteed by the Department of Transportation:

(1) The Bank made a $180 million loan to Amtrak at an interest rate of 8.70% to mature on September 30, 1975. Proceeds from the loan were used to refinance Amtrak's outstanding loans with the Bank.

(2) The Bank closed a $100 million renewable 91-day line of credit with Amtrak. Amtrak made an initial drawing of $3.7 million at an interest rate of 8.213%.

(3) The Bank provided $27.4 million of long-term financing for 81 locomotives at an interest rate of 8.75%. The loan matures on July 15, 1988.

(4) The Bank provided $9.9 million of long-term financing for 29 locomotives also at an interest rate of 8.75%. The loan matures on January 15, 1989.

Federal Financing Bank loans outstanding presently exceed $2.8 billion and unfilled commitments total almost $1.9 billion. The Bank has made loans to eight Federal agencies and other borrowers whose obligations are guaranteed by the Federal Government.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE October 18, 1974

SECRETARY SIMON HONORS 144 TREASURY EMPLOYEES

Treasury Secretary William E. Simon recognized the distinguished contributions and Federal service of 144 Treasury employees today at the Department's Annual Awards ceremony in the Departmental Auditorium in Washington.

Among 12 Exceptional Service Awards were two made posthumously to a pair of U.S. Customs patrol officers, killed last April while intercepting narcotics smugglers in Arizona.

In honoring Treasury employees, Secretary Simon said, "There are those who would say that excellence of performance is no longer in style. You who are to be recognized today, and thousands of other Treasury employees who have been recognized this past year under the incentive awards program, are witnesses to the contrary. Your collective efforts have resulted in untold tangible benefits to our Treasury operations."

Through employee suggestions he noted, the Treasury Department netted more than a million dollars of first-year savings, the highest level achieved in the past five years; and by their special achievements recognized under the awards program, employees raised the total of tangible benefits to almost $2 million.

The two Customs officers who received, posthumously, Exceptional Service Awards, the highest award which may be recommended for presentation by the Secretary, were Charles J. Bokinskie, 26, whose award was accepted by his parents, Mr. and Mrs. Jerome A. Bokinskie of Ogden, Utah, and Louis D. Dixon, 32, whose widow, Mrs. Celeste L. Dixon of Southport, North Carolina received the award. His mother, Mrs. Gwendolyn Dixon, was also present. Both officers were attached to the U.S. Customs Service in Los Angeles.

Other honors included: 23 recipients of Meritorious Service Awards, the second highest award to be recommended for presentation by the Secretary.

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-- 56 monetary awards to employees for outstanding suggestions or services which effected significant monetary savings, increased efficiency, or improvements in Government operations. The highest individual award of $1,270 went to Samuel M. Petrille, inspector with the building and mechanical division of the U.S. Mint in Philadelphia, Pennsylvania.

-- 16 supervisors for notable achievements in encouraging efficiency and economy.

-- 16 awards for excellence in furthering special Government programs requiring special attention and extra effort from the executive branch of the Government.

For longevity in the career Federal service one man was recognized for 50 years' service, and one woman and ten men were honored for 40 years' service.

The Secretary's awards to Bureaus went to the Bureau of Engraving and Printing, for its performance Awards program; the Bureau of the Mint, for its suggestions program; the Internal Revenue Service, for cost reduction and management improvement; and the Savings Bonds Division, for safety.

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1974
Annual Awards Ceremony

THE DEPARTMENT OF THE TREASURY
1789

October 18, 1974, 10:00 A.M.
Departmental Auditorium
Washington, D.C.

FOREWORD

This ceremony honors 144 Treasury employees who are in the vanguard of this Department's effort to give the people of our country increased efficiency and effectiveness in their Government.

There are those who would say that excellence of performance is no longer in style. You who are to be recognized today, and thousands of other Treasury employees who have been recognized this past year under the incentive awards program, are witnesses to the contrary. Your collective efforts have resulted in untold tangible benefits to our Treasury operations. In addition, your suggestions have netted more than a million dollars of first-year savings, the highest level achieved in the past 5 years, and your special achievements recognized under the program raised the total of tangible benefits to almost $2 million.

Today's ceremony is but a small token of appreciation. Please accept my congratulations and warm welcome to your families and friends.

William E. Simon

Secretary of the Treasury.

1974
PROGRAM
ANNUAL AWARDS CEREMONY
DEPARTMENT OF THE TREASURY

Music....................................U.S. Army Band
Presentation of Colors............Joint Armed Forces Color Detail
The National Anthem..........................U.S. Army Band
Introductions.................................Warren F. Brecht
Assistant Secretary for Administration
Remarks....................................William E. Simon
Secretary of the Treasury
Announcing Award Recipients....................Arch S. Ramsay
Director of Personnel
Presentation of Awards........................William E. Simon
Secretary of the Treasury

- Employee Suggestions and Services
- Suggester-of-the-Year
- Awards to Supervisors
- Recognition for Special Government-Wide Programs
- Career Service Recognition (Washington, D.C. area)
- The Secretary's Awards to Bureaus
    - Performance Awards Program
    - Suggestion Awards Program
    - Cost Reduction and Management Improvement
    - Safety Program
- Meritorious Service Awards
- Exceptional Service Awards
- Alexander Hamilton Awards

Musical Selection............................U.S. Army Band

1974
ANNUAL AWARDS CEREMONY
DEPARTMENT OF THE TREASURY

TREASURY AWARDS COMMITTEE

Chairman
Arch S. Ramsay
Director of Personnel

Members
Donald L. E. Ritger
Deputy General Counsel

James B. Clawson
Deputy Assistant Secretary
(Enforcement, Operations and Tariff Affairs)

David Mosso
Deputy Fiscal Assistant Secretary

John A. Hurley
Assistant Commissioner (Administration)
U. S. Customs Service

Joseph T. Davis
Assistant Commissioner (Administration)
Internal Revenue Service

Arnold Bresnick
Assistant Director for Administration
Bureau of the Mint

Stanley N. Dunn
Chief, Office of Industrial Relations
Bureau of Engraving and Printing

Stanley D. Allen
Chief, Management Analysis Division
Office of Management and Organization

EMPLOYEE SUGGESTIONS AND SERVICES

Recognition by the Secretary of outstanding suggestions or exemplary services which served to effect significant monetary savings, increased efficiency, or improvements in Government operations.

Gregory J. Bizzoco, Building Maintenance Foreman, Building and Mechanical Division, U.S. Assay Office, Bureau of the Mint, New York, N.Y.

For displaying outstanding initiative in recommending five separate suggestions which have proven to be most beneficial to the operation of the New York Assay Office. Estimated savings—$16,733. Suggestion Awards—$865.

Nancy I. Brown, Management Analyst, Management Analysis Division, U.S. Customs Service, New York, N.Y.

For coordinating the completion of construction of the new U.S. Customhouse, World Trade Center; accomplishing the orderly move of over 1,500 employees and ensuring that the mission of the U.S. Customs Service proceeded uninterrupted through this transition. Special Achievement Award—$500.

W. Andrew Carothers, Jr., Legislative Attorney Advisor for the Office of Chief Counsel, Office of the Comptroller of the Currency

For outstanding performance in the implementation of proposals made by the President's Commission on Financial Structure and Regulation into a legislative program which resulted in the recommended Financial Institutions Act draft bill of 1973. Special Achievement Award—$750.

Kenneth Cedeno, Customs Inspector, U.S. Customs Service, San Ysidro, Calif.

For his excellent cooperation with the Federal Bureau of Investigation concerning a bribery attempt which resulted in the arrest of two individuals and the seizure of $2,500 pay-off money. Special Achievement Award—$1,000.

Sheldon Cohen, Internal Revenue Agent, Internal Revenue Service, Chicago, Ill.

For excellence in representing the Government as an expert witness in criminal tax cases in the Chicago District. Special Achievement Award—$600.

Bernice Contarino, Unit Supervisor, Data Conversion Branch, Internal Revenue Service Center, Andover, Mass.

For her suggestion regarding Individual Performance Index Listing. Estimated savings—$12,808. Suggestion Award—$625.

Joseph R. Coppola, Special Agent, Office of Investigations, Counterfeit Division, U.S. Secret Service

For conducting a number of extremely important and difficult criminal investigations which resulted in the arrest of numerous persons and the seizure of large sums in counterfeit notes. Special Achievement Award—$750.

Sidney Cox, Assistant Fiscal Assistant Secretary

For outstanding direction of a comprehensive study of the Treasury's tax and loan account system that resulted in the adoption of conclusions which will have far-reaching significance in the future management of the Treasury's cash balances. Special Achievement Award—$1,000.

William P. Crewe (Resigned), Formerly Director, Operations and Planning Division, Office of the Chief Counsel, Internal Revenue Service

For exceptional legal, managerial and executive ability displayed while occupying the position of Director, Operations and Planning Division, Office of the Chief Counsel, Internal Revenue Service. Special Achievement Award—$500.

Victor E. Del Tredici, National Bank Examiner, Office of the Comptroller of the Currency, San Francisco, Calif.

For leadership, outstanding efforts and dedication in conducting schools for recently commissioned National Bank Examiners while performing his regular duties as National Bank Examiner. Special Achievement Award—$500.

Gregory Derkasch, Special Agent, Office of Investigations, U.S. Secret Service, New York, N.Y.

For conducting a series of complex criminal investigations which resulted in the suppression of a conspiracy to defraud the Federal Government and the public of large sums of money through interstate transportation of stolen and forged Treasury bonds. Special Achievement Award—$500.

Bruce W. Diggelman, Mail Specialist, U.S. Customs Service, Oakland, Calif.

For suggesting that a printed notice, explaining the reason for a higher rate of duty on goods manufactured in the People's Republic of China, be attached to appropriate packages, thus improving relations with the importing public. Estimated savings—$10,050. Suggestion Award—$555.

William Doyle, Supervisory Customs Inspector, Region 1, U.S. Customs Service, Boston, Mass.

For exemplary performance exhibited in the Customs preclearance operation in Malton Airport at Toronto, Ontario. Special Achievement Award—$500.

Alfred Gates, Electrical Leader, Production Maintenance Division, U.S. Assay Office, Bureau of the Mint, San Francisco, Calif.

For spearheading six separate group suggestions adopted during fiscal year 1974 resulting in a large savings in the operations of the San Francisco Assay Office. Estimated savings—$127,234. Suggestion Awards—$553.

Gary E. Gilliam, Operations Research Analyst, Office of Computer Science, Office of the Secretary

For assisting in the development of the methodology for the merging of microdata bases for the Office of Tax Analysis, which will result in great savings to the Government. Special Achievement Award—$689.

James Gilmartin, Special Agent, Office of Investigations, U.S. Secret Service, New York, N.Y.

For conducting a series of complex criminal investigations which resulted in the suppression of a conspiracy to defraud the Federal Government and the public of large sums of money through interstate transportation of stolen and forged Treasury bonds. Special Achievement Award—$500.

John B. Harvey, Miscellaneous Documents Examiner, U.S. Customs Service, Miami, Fla.

For suggesting a separate form for the collection of liabilities on low-valued pilfered merchandise, thus improving relations with the importing public. Estimated savings—$70,500. Suggestion Award—$1,055.

David G. Hayes, Associate Director for the Department of Banking and Economic Research, Office of the Comptroller of the Currency

For outstanding performance in the implementation of the proposals made by the President's Commission on Financial Structure and Regulation into a legislative program which resulted in the recommended Financial Institutions Act draft bill of 1973. Special Achievement Award—$750.

Walter E. Hillman, Jr., Customs Inspector, U.S. Customs Service, Calexico, Calif.

For keen awareness and alert observation which resulted in the seizure, without prior information, of 1¼ pounds of heroin with an estimated street value of one-half million dollars. Special Achievement Award—$500.

Enid Fay Hogge, Data Transcriber, Internal Revenue Service Center, Ogden, Utah

For creativeness and originality in developing an idea that has resulted in substantial economies to the Federal Government and the taxpaying public. Estimated savings—$43,350. Suggestion Award—$920.

Alexander R. Honore, Supervisory Customs Patrol Officer, U.S. Customs Service, Los Angeles, Calif.

For expert leadership and guidance of the Air Security Program through a most difficult period in which the hijacking of aircraft, bomb threats and physical assault by passengers were a constant threat to the airlines and their employees. Special Achievement Award—$500.

Walter B. Iverson, Customs Inspector, U.S. Customs Service, Calexico, Calif.

For keen awareness and alert observation which resulted in the seizure, without prior information, of 14 pounds and 5 ounces of heroin with an estimated street value of $7.6 million. Special Achievement Award—$500.

John F. Kiernan, Assistant Personnel Officer, Personnel Administration Staff, Bureau of Government Financial Operations

For an outstanding contribution to the Bureau's Personnel Management Program through his devotion and commitment over a prolonged period of time to resolving complex staffing, employee relations, and organizational matters. Special Achievement Award—$500.

Edward S. Kopczak, Chief, Miscellaneous Tax Forms Section, Tax Forms Development Branch, Internal Revenue Service

For his suggestion concerning the recording of FICA amounts on Forms W-2 which was adopted by the Service and nine other Government agencies. Estimated savings—$22,600. Suggestion Award—$650.

Thomas B. C. Leddy, Deputy Director, Office of International Monetary Credit and Investment Affairs, Office of the Assistant Secretary for International Affairs

For his outstanding contributions as key official in the preparation of U.S. positions on broad issues related to monetary reform and operation of the monetary system. Special Achievement Award—$1,000.

Robert E. Lent, Customs Inspector, U.S. Customs Service, International Airport, Los Angeles, Calif.

For contributing to improved Customs operations by suggesting the addition of manifest numbers on all entries. Estimated savings—$20,000. Suggestion Award—$800.

Dennis E. Logue, Formerly International Economist, Office of the Assistant Secretary for International Affairs

For his role in initiating economic research and originating, organizing and preparing Treasury papers developing alternatives and recommending policies on the Law of the Sea issues. Special Achievement Award—$500.

Antonio Lonardo, Section Chief, Computer Branch, Internal Revenue Service Center, Andover, Mass.

For ingenuity and originality displayed in the submission of five adopted suggestions primarily involving the computer system. Estimated savings—$19,644. Suggestion Awards—$1,155.

Alfred Luebben, Machine Shop Foreman, U.S. Assay Office, Bureau of the Mint, San Francisco, Calif.

For displaying initiative and originality in his suggestion to convert the conventional proof presses from a manual operation to an automatic dual stamping process. Estimated savings—$13,375. Suggestion Award—$635.

Peter G. Lynard, Tax Law Specialist, Reorganization Branch, Income Tax Division, Office of the Assistant Commissioner (Technical), Internal Revenue Service

For extraordinary handling, under the most trying circumstances, of a highly publicized and extremely complicated technical advice request, and the issuance of the comprehensive, precedential reply in a lucid and well-reasoned manner. Special Achievement Award—$650.

William L. Marchi, Senior Operations Officer, Duty Assessment Division, U.S. Customs Service

For designing and implementing nationally the Customs procedures necessary to collect, verify, and report the new cost insurance and freight/freight on board statistical data on imported merchandise. Special Achievement Award—$500.

Roy C. McDonald, Auditor, Office of Regional Inspector, Southwest Region, Internal Revenue Service, Dallas, Tex.

For developing internal audit techniques which were used at the Internal Revenue Service Centers to determine that a number of unmarried taxpayers were erroneously using the head of household rates, resulting in additional assessment of revenue amounting to $10.2 million for fiscal year 1974. Special Achievement Award—$500.

Lois L. Muir, Tax Examiner, Collection & Taxpayer Service Division, Interview and Service Section, Southeast Region, Internal Revenue Service, Atlanta, Ga.

For suggesting a simplified procedure for handling refund inquiries eliminating approximately 200 to 300 return calls daily. Estimated savings—$10,471. Suggestion Award—$565.

Thomas J. Murphy, Machinist, Construction and Maintenance Division, Bureau of Engraving and Printing

For proposing a method whereby postage stamp sheets can be wrapped without an involved and extensive paper straightening process. Estimated savings—$9,863 annually. Suggestion Award—$545.

Wallace S. Nathan, Regional Counsel, Office of the Comptroller of the Currency, New York, N.Y.

For exceptional dedication and superior performance as Regional Counsel for the Second National Bank Region of the Office of the Comptroller of the Currency. Special Achievement Award—$500.

Sheri L. Newman, Budget Analyst, Budget and Reports Section, Fiscal Management Branch, Southeast Region, Internal Revenue Service, Atlanta, Ga.

For suggesting a procedural improvement in the Service's payroll/timekeeping system, producing a salary saving and increased employee morale due to reduction of employee salary check errors. Estimated savings—$15,000. Suggestion Award—$750.

Leade Orvis, Forester, Internal Revenue Service, Seattle, Wash.

For an extraordinary contribution to the economy, efficiency and effectiveness of Government operations through application of automatic data processing. Estimated savings—$38,000. Suggestion Award—$890.

William H. Parsons, Jr., Associate Attorney, Interpretative Division, Office of the Chief Counsel, Internal Revenue Service

For significant legal services provided to personnel of the Internal Revenue Service in the processing of an unusual corporate tax case with extremely complex tax issues and involving hundreds of taxpayers and millions of dollars in taxes. Special Achievement Award—$500.

Samuel M. Petrille, Inspector, Mechanical Systems, Building and Mechanical Division, U.S. Mint, Philadelphia, Pa.

For suggesting the recovery and reuse of hydraulic fluid used in hydraulic systems throughout the Mint and for eliminating costly intermittent failures of a conveyor line at the Philadelphia Mint. Estimated savings—$53,505. Suggestion Award—$1,270.

Basil N. Petrou, Foreign Affairs Officer, Office of the Assistant Secretary for Trade, Energy, and Financial Resources Policy Coordination

For his role in initiating economic research and originating, organizing and preparing Treasury papers developing alternatives and recommending policies on the Law of the Sea issues. Special Achievement Award—$500.

Victor J. Renaghan, Sr., Management Analyst, U.S. Customs Service

For contributions to international cooperation through the development of a management information system for the Government of Vietnam Customs. Special Achievement Award—$500.

Mary O. Renegar, Supervisory Tax Examiner, Accounting Branch, Data Conversion and Accounting Division, Internal Revenue Service Center, Austin, Tex.

For providing outstanding assistance in the development of and training on procedural instructions for Phase II of the integrated Data Retrieval System. Special Achievement Award—$500.

Glen T. Richardson, Customs Patrol Officer, U.S. Customs Service, San Pedro, Calif.

For keen awareness and alert observation which resulted in the seizure, without prior knowledge, of approximately 9 pounds of cocaine. Special Achievement Award—$500.

Kenneth E. Ryan, Senior Criminal Investigator (Special Agent), Office of Investigations, U.S. Customs Service, Houston, Tex.

For outstanding leadership and direction in the transfer of enforcement functions and personnel of the Houston region to the Drug Enforcement Administration. Special Achievement Award—$500.

Raymond G. Seewald, Supervisory Customs Inspector, U.S. Customs Service, San Ysidro, Calif.

For alert and careful inspection of merchandise, which resulted in the U.S. Customs Service collecting $77,826,473 in penalties and preventing a $32,863 loss of revenue. Special Achievement Award—$500.

Richard Seibert, General Mechanic Foreman, U.S. Mint, San Francisco, Calif.

For performance far beyond the call of duty in support of the restoration of the Old Mint Building in San Francisco. Special Achievement Award—$500.

Henry Silvestro, Management Analyst, Administrative Division, Plans and Programs Section, Internal Revenue Service Center, Andover, Mass.

For a suggestion to prevent mixed data blocks from processing to good tape. Estimated savings—$107,625. Suggestion Award—$605.

Richard J. Sweeney, International Economist, Office of the Assistant Secretary for International Affairs

For his role in initiating economic research and originating, organizing and preparing Treasury papers developing alternatives and recommending policies on the Law of the Sea issues. Special Achievement Award—$500.

Alice S. Teate, Taxpayer Service Representative, Internal Revenue Service, Southeast Region, Jacksonville, Fla.

For suggestions to improve the tax forms package sent to tax practitioners. Estimated savings—$13,350. Suggestion Award—$560.

Oscar L. Tyree, Chief, Branch No. 2, Interpretative Division, Office of the Chief Counsel, Internal Revenue Service

For significant legal services provided to personnel of the Internal Revenue Service in the processing of an unusual corporate tax case with extremely complex tax issues and involving hundreds of taxpayers and millions of dollars in taxes. Special Achievement Award—$500.

James C. Waters, Chief, Examination Branch, Processing Division, Internal Revenue Service Center, Philadelphia, Pa.

For suggesting that two files be merged and a different color ink used for each calendar year, thus making it easier to purge the file and drastically reducing research activity. Estimated savings—$55,453. Suggestion Award—$980.

ANDREW J. WILSON (Retired), Formerly Chief, Office of Financial Management, Bureau of Engraving and Printing

For consistently demonstrating exceptional competence, integrity, sound judgment and devotion to the field of financial administration in efficiently managing the complex financial program of the Bureau. Special Achievement Award—$500.

AUGUSTINE A. ALBINO, Cost Accountant, Cost Accounting Division, Philadelphia Mint

DONALD E. VOGT, Systems Accountant, Office of Administration, Bureau of the Mint

For outstanding performance in developing new cost accounting procedures at the Old Mint to allow for proper allocation of computer usage charges to various programs. Group Special Achievement Award—$1,000.

JOHN RAMEY, Jr., Special Agent, Columbia, S.C.

R. JERRY EMBREE, Special Agent, Greenville, S.C.

Bureau of Alcohol, Tobacco, and Firearms

For skill and dedication in the investigation of an extremely complex criminal case which resulted in a substantial accomplishment in achieving justice. Group Special Achievement Award—$1,000.

SUGGESTER-OF-THE-YEAR

ALFRED GATES, Electrical Leader, Production Maintenance Division, U.S. Assay Office, Bureau of the Mint, San Francisco, Calif.

For his outstanding contributions to the Department's suggestion program during fiscal year 1974.

SUPERVISOR OF THE SUGGESTER-OF-THE-YEAR

GORDON P. WOOD, Electrical Foreman, Production Maintenance Division, U.S. Assay Office, Bureau of the Mint, San Francisco, Calif.

BUREAU SUGGESTERS-OF-THE-YEAR

TOMMY J. BOLTON, Computer Operator, Electronic Operations Branch, Disbursing Center, Bureau of Government Financial Operations, Austin, Tex.

THOMAS J. MURPHY, Machinist, Construction and Maintenance Division, Bureau of Engraving and Printing

JAMES C. WATERS, Chief, Examination Branch, Processing Division, Internal Revenue Service Center, Philadelphia, Pa.

AWARDS TO SUPERVISORS

Recognition by the Secretary of notable achievements by supervisors in encouraging employee contributions to efficiency and economy. These supervisors were selected from Bureau nominees after consideration of such factors as the size of groups supervised, the value of contributions, and the nature of action by the supervisor.

ROBERT S. ATTORRI, Chief, Processing Division, Internal Revenue Service Center, Philadelphia, Pa.

For dedicated leadership and motivation which resulted in cost reduction and the increased efficiency of his employees who consistently responded to taxpayer inquiries and problems in a manner which greatly enhanced the public image of the Internal Revenue Service.

JAMES A. BRUNO, Assistant Foreman, Food Coupon Finishing Section, Postage Stamp Division, Bureau of Engraving and Printing

For outstanding leadership in encouraging his employees to perform their duties with a high degree of effectiveness, and for providing appropriate recognition for their achievements.

JOHN L. CLARK, Supervisory Administrative Assistant (Chief), Whole Note Branch, Division of Cash Services, Banking and Cash Management, Bureau of Government Financial Operations

For outstanding achievements and effective leadership in training, motivating and encouraging employees to perform at a high degree of efficiency and economy.

ELEANORE C. CONDON, Supervisory Operating Accountant (Chief, Accounts and Control Branch), Accounting Operations, Division of Government Accounts and Reports, Bureau of Government Financial Operations

For exceptional managerial ability and devotion to duty in supervising and encouraging her subordinates to perform consistently at a high degree of efficiency and effectiveness during a period of greatly increased work volume.

GEORGE W. HENDERSON, Supervisory Operating Accountant, General Ledger Branch, Division of Government Accounts and Reports, Bureau of Government Financial Operations

For outstanding managerial ability in the successful resolution of additional work assigned to his Branch through motivation of his employees toward excellence of performance.

ROBERT G. KANE, Supervisory Electrical Engineer, Building and Mechanical Division, U.S. Mint, Philadelphia, Pa.

For outstanding leadership and supervision which have resulted in an increase in the number of suggestions submitted by his employees and the timely processing of suggestions received from employees of other divisions.

GERALDINE B. PYLANT. Assistant Chief, Special Payments and Claims Branch, Treasury Disbursing Center, Bureau of Government Financial Operations, Birmingham, Ala.

For exceptional leadership and performance in Branch reorganization, staffing and training, and in implementing procedures related to the Supplemental Security Income program.

LINDA PIFER REID, Manager, Review and Rulings Branch, Division of Securities Operations, Bureau of the Public Debt

For demonstrating consistently outstanding technical competence, innovative planning and concern for subordinates, and maintaining the highest professional management standards.

JOSEPH F. RUFFLEY, Sr., Deputy Assistant Comptroller for Auditing, Bureau of Government Financial Operations

For extraordinary achievement in leadership and management of a group of professional auditors motivated by a common incentive for excellence in performance and career development.

RICHARD C. SENNETT, Chief, Office of Engineering, Bureau of Engraving and Printing

For personal leadership and genuine interest in stimulating and motivating employees and officials of the Bureau of Engraving and Printing to be cost conscious and alert to ways of improving operations and increasing production.

Eleanor Sue Smith, Chief, Cash Transactions Control Section, Principal Accounts Branch, Division of Public Debt Accounts, Bureau of the Public Debt

For her high sense of dedication, and her ability to manage and motivate employees in regularly meeting rigid deadlines and in effecting major operational changes without sacrificing accuracy and quality.

Helen C. Smith, Supervisory Accounting Technician, Accounts Control Group, Claims and Ruling Section, Division of Loans and Currency, Bureau of the Public Debt, Chicago, Ill.

For superior skill in supervising employees responsible for maintenance of accounting records, for an unusual ability to train and develop new employees, and for her willingness and cooperation in accepting other important assignments as needed.

Stanley Soloway, Fines, Penalties, and Forfeitures Officer, New York Seaport Area, U.S. Customs Service, New York, N.Y.

For his continuing efforts in improving job effort, orienting members of the Maritime Industry and motivating employees to achieve results beneficial to the collection of revenue.

Joseph M. Wagner, Supervisory Accountant, Accounting and Reporting Branch, Budget and Finance Division, Bureau of the Mint

For outstanding leadership as measured by the ability of his employees to produce at extremely high levels of performance in order to meet increased workloads.

Warren L. Wegener, National Bank Examiner, Office of the Comptroller of the Currency, Minneapolis, Minn.

For outstanding leadership and administrative and technical ability in supervising recently commissioned and Assistant National Bank Examiners during the examination of national banks and for effective supervision and manpower utilization resulting in the highest improvement in work productivity in the Ninth National Bank Region.

Gordon P. Wood, Electrical Foreman, Production Maintenance Division, U.S. Assay Office, Bureau of the Mint, San Francisco, Calif.

For outstanding leadership in encouraging and motivating employees to submit high quality suggestions, resulting in substantial cost reductions and increased efficiency at the San Francisco Assay Office.

SPECIAL AWARDS FOR EXCELLENCE IN FURTHERING SPECIAL GOVERNMENT-WIDE PROGRAMS

Recognition by the Secretary for outstanding contributions to the furtherance of a number of Government-wide programs in which the President has asked for special attention and extra effort from the executive branch of the Government.

ELTING ARNOLD, Special Assistant to the General Counsel, Office of the Secretary

For his extensive contribution to the development of the Treasury Environmental Quality Program, his sage counsel in aiding the Department's conformance with the National Environmental Protection Act, and his outstanding role as legal coordinator for Treasury in working with other agencies to protect our environment.

GARLAND V. BELL, Chief, Office of Security, Bureau of Engraving and Printing

For leadership in furthering the conservation of energy resources by reducing the use of electricity and by the formation of carpools through the Bureau's parking program.

GERALDINE CHAPMAN, Personnel Staffing Specialist, Internal Revenue Service Center, Andover, Mass.

For outstanding ability in providing guidance, leadership and understanding to the educationally disadvantaged through encouraging and motivating the handicapped to become productive employees.

MATTIE L. CROMWELL, Assistant Chief, Examination Section, Review and Rulings Branch, Division of Securities Operations, Bureau of the Public Debt

For exceptional ability and effectiveness in communicating, counseling and assisting banks, brokerage houses and individual security holders in matters relating to Treasury securities.

Anthony V. DiSilvestre, Management Analyst, Management Analysis Division, Office of Management and Organization, Office of the Secretary

For his outstanding contributions to the Treasury Environmental Quality Program which, through his efforts, has become an active, effective operation; a model for other Federal agencies; and an important avenue for inter-departmental cooperation and for coordination within the Department.

Marsha L. Gallo, Employee Relations Specialist, Personnel Administration Staff, Bureau of Government Financial Operations

For her technical competence in personnel management matters and for her consistent tact, fairness and impartiality in effecting solutions to personnel grievances and in counseling of employees.

William A. Hawthorne, Deputy Assistant to the Director (Public Affairs), U.S. Secret Service

For exceptional service in formulating and executing policies and procedures which have resulted in improved service to the public; and initiative and imagination in assisting in the implementation of the public affairs program of the United States Secret Service.

Charles H. Jenkins, Jr., Regional Fiscal Management Officer, Southeast Region, Internal Revenue Service, Atlanta, Ga.

For outstanding accomplishments in support of Equal Employment Opportunity, particularly in the areas of hiring and promoting minorities and women, creating new job opportunities, and demonstrating sensitive treatment of all employees.

Margaret Kowalski, Securities Examiner, Claims and Ruling Section, Division of Loans and Currency, Bureau of the Public Debt, Chicago, Ill.

For excellence in handling savings bond transactions, ability to effectively train new employees in the more difficult aspects of the work, and willingness and cooperation in accepting additional duties and responsibilities to promote continued high level service to investors in U.S. Savings Bonds.

John J. Mack, Special Assistant to the Regional Commissioner, Region IX, U.S. Customs Service, Chicago, Ill.

For outstanding contributions in the installation of the Treasury Enforcement and Communications System in the Chicago Region of the U.S. Customs Service.

Lola Mann, Procurement Agent, Region IX, U.S. Customs Service, Chicago, Ill.

For outstanding contributions toward upgrading and modernizing the U.S. Customs Service facilities in Region IX.

Betty Jean McLain, Occupational Health Nurse, Parkersburg Office, Bureau of the Public Debt, Parkersburg, W.Va.

For excellence in the establishment and development of an outstanding health maintenance program for the Parkersburg Office of the Bureau and for professional skill, dedication and innovation which have earned her the highest respect and led to her health unit being used as a model for both Federal and private facilities.

Sylvester A. Melone, Supervisory Customs Inspector, U.S Customs Service, Newark, N.J.

For superior technical skill, leadership, and competence in successfully carrying out responsibilities in the area of Arms, Detector Dog Program, Security and Public Service.

William Sansone, Chief, Employee Management Relations Branch, U.S. Customs Service, New York, N.Y.

For achievements in the implementation of the Federal Labor Management Relations Program which exemplify the qualities necessary for the Federal government to pursue a constructive program in this field and for performance which has served as a model for those occupying similar positions throughout the Department.

Florence N. Spratley, Supervisory Clerical Assistant, Postage Stamp Division, Bureau of Engraving and Printing

For superior contributions to the Federal Equal Employment Opportunity Program in the Bureau of Engraving and Printing through personal involvement and motivation of others.

Carlo J. Stallo, Personnel Management Specialist, Office of Industrial Relations, Bureau of Engraving and Printing

For his initiative and resourcefulness in developing, implementing and carrying out very comprehensive and well-rounded training and education programs whereby many disadvantaged employees of the Bureau could qualify for advancement.

Edwin P. Trainor, Regional Commissioner, Midwest Region, Internal Revenue Service, Chicago, Ill.

For outstanding executive leadership, positive commitment, and superior accomplishments in making Equal Employment Opportunity a reality in the Midwest Region of the Internal Revenue Service.

Rudy Villarreal, Director, Division of Cash Services, Banking and Cash Management, Bureau of Government Financial Operations

For excellence in improving and maintaining effective communications with and services to the public, thus enhancing the image of the Department.

Michael G. Harryman, Personnel Officer
Theresa Proto, Personnel Staffing Specialist
Victoria Sears, Management Analyst

U.S. Assay Office, Bureau of the Mint, San Francisco, Calif.
For outstanding accomplishments in hiring handicapped persons and making Veteran Readjustment Appointments during fiscal year 1974.

George G. Ambrose, Assistant Director, Office of Production
Frank R. DeLeo, Head, Federal Reserve Liaison Division, Office of Public Services
Benjamin M. Horton, Traffic Management Specialist, Office of Production, Bureau of the Mint

For significant contributions to management improvement through a more effective means for coin shipment and storage, resulting in significant savings and increased service to the public.

Office of Revenue Sharing, Office of the Secretary

For unusual initiative and performance of duties in a new and unique federal program.

CAREER SERVICE RECOGNITION

Recognition by the Secretary of employees in the Washington, D.C., area who attained 50, 45, or 40 years of Federal service during fiscal year 1974.

50 Years of Federal Service

Clarence M. Bowles (Retired)	Bureau of Engraving and Printing

40 Years of Federal Service

Edgar F. Barnes	Bureau of the Public Debt
John S. Costello	Internal Revenue Service
John D. Gwin	Office of the Comptroller of the Currency
Iola S. Holler	Office of the Secretary
Edwin C. Hoover	Internal Revenue Service
Henry L. Kone	Bureau of Engraving and Printing
Carl W. Nelson (Retired)	Bureau of Engraving and Printing
Leonard J. Ralston (Retired)	Bureau of Alcohol, Tobacco and Firearms
James W. Segars	U.S. Customs Service
Schuyler W. Shewmaker	Bureau of the Public Debt
Ralph A. Yates (Retired)	U.S. Customs Service

THE SECRETARY'S ANNUAL AWARDS

The Secretary of the Treasury presents honorary awards each year to recognize bureaus for outstanding performance in a number of areas.

SECRETARY'S AWARD FOR INCENTIVE AWARDS PROGRAM (PERFORMANCE)

Bureau of Engraving and Printing

For outstanding overall results in effectively recognizing employee performance which significantly exceeded normal job requirements. Over 37 percent of all personnel of the Bureau received cash awards or high quality pay increases, and tangible benefits from services recognized averaged nearly $5,000 per 100 employees.

SECRETARY'S AWARD FOR INCENTIVE AWARDS PROGRAM (SUGGESTIONS)

Bureau of the Mint

For the best overall results in the suggestion program during fiscal year 1974. For each 100 employees on its rolls the Bureau had over 4 adopted suggestions and estimated savings of $6,700.

SECRETARY'S AWARD FOR SIGNIFICANT ACCOMPLISHMENT IN THE COST REDUCTION AND MANAGEMENT IMPROVEMENT PROGRAM

Internal Revenue Service

For sustained superior achievements in the Incentive Awards Program during fiscal year 1974 which resulted in over a million dollars in tangible benefits.

SECRETARY'S AWARD FOR SAFETY

Savings Bonds Division

For showing the greatest reduction in the frequency of disabling injuries over the preceding three year average for Bureaus with under 1,800* personnel. Division reduced its rate to 2.1 injuries per million man-hours worked, a reduction of 36.4% over the previous three year average.

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*No Bureau in the over 1,800 personnel category qualified for the award.

MERITORIOUS SERVICE AWARDS

The Meritorious Service Award is next to the highest which may be recommended for presentation by the Secretary. It is conferred on employees who render meritorious service within or beyond their required duties.

Charles R. Baker, Director, Foreign Banking Staff, Bureau of Government Financial Operations

For outstanding technical competence and leadership in directing significant improvements in the overseas military banking program, thereby expanding banking services available to servicemen overseas and effecting savings to the Government.

Claude D. Baldwin, Director, Research Division, Office of the Assistant Commissioner (Planning and Research), Internal Revenue Service

For extensive assistance rendered to Treasury policymakers, staffs of Congressional Committees, and the Office of Management and Budget in the development and drafting of the new comprehensive pension legislation.

George A. Baly, Technical Assistant to the Commissioner of the Public Debt

For his significant contributions to the effective implementation of debt management policies and decisions which have had a direct impact upon the conduct of the offerings of billions of dollars of Treasury securities each year.

William Howard Beasley, III, formerly Special Assistant to the Deputy Secretary

For important contributions to the success of economic and financial projects of major concern to the Department and to the Administration.

Albert G. Bergesen, Regional Commissioner, U.S. Customs Service, Los Angeles, Calif.

For initiative and leadership which have inspired and motivated employees in all functions throughout the region and which have been invaluable in establishing effective working relationships throughout private industry and the Federal Government.

ROBERT BLOOM, Chief Counsel for the Office of the Comptroller of the Currency

For significant contributions to the successful accomplishment of the mission and responsibilities of the Office of the Comptroller through his technical and administrative expertise which has been invaluable in both the implementation and the formulation of new statutes and regulations in the field of banking and bank examination.

IRA COHEN, Actuary, Actuarial Branch, Miscellaneous and Special Provisions Tax Division, Office of the Assistant Commissioner (Technical), Internal Revenue Service

For his extensive assistance rendered to Treasury policymakers, staffs of Congressional Committees, and the Office of Management and Budget in the development and drafting of the new comprehensive pension legislation.

RONALD A. DALL, Assistant Director, Equal Opportunity Program, Office of the Secretary

For unusual competence, initiative and leadership demonstrated in furthering the implementation of an effective Federal Equal Employment Opportunity Program within the Department.

JACK B. DUNN, State Director, U.S. Savings Bonds Division, Newark, N.J.

For outstanding service and unusual competence and personal dedication demonstrated in directing the operations of the Sales Program in New Jersey and for invaluable assistance provided to the national program.

URSULA FARRELL, Formerly White House Fellow and Executive Assistant to the Secretary

For her complete dedication to the responsibilities of her position including her major role in the initiation and successful completion of the Department's study of capital markets and other special projects.

E. JAY FINKEL, Director, Office of Developing Nations Finance, Office of the Assistant Secretary for International Affairs

For exceptional effectiveness in the formation and implementation of U.S. Government policy in connection with the international development lending institutions.

Charles G. Gallagher, Systems Manager, Office of Revenue Sharing, Office of the Secretary

For successful translation, within severe time restraints, of a complex law and uniquely new type of major Federal fiscal assistance to 39,000 State and local governments into an efficient, dependable, computer-based operation.

Kenneth S. Giannoules, Special Agent, U.S. Secret Service

For distinguished service, unusual competence and dedicated personal leadership in originating and implementing programs which developed the Washington National Central Bureau, International Criminal Police Organization into an effective, fully operational and well known Bureau and increased the efficiency of the law enforcement effort in the United States and abroad.

John Klossner, Deputy Director, Office of Gold and Silver Operations, Office of the Secretary

For his unique expertise in the intricate workings of the American gold market from the producing mines to the final consumer.

William M. Lieber, Supervisory Attorney-Adviser (Tax Legislation), Internal Revenue Service

For extensive assistance rendered to Treasury policymakers, staffs of Congressional committees, and the Office of Management and Budget in the development and drafting of the new comprehensive pension legislation.

Dean E. Miller, Deputy Comptroller of the Currency for Trusts

For providing decisive leadership in the development of the Comptroller's trust department and for his administrative ability and professional expertise which have been instrumental in the development of a staff of trust specialists who demonstrate unusually high standards in bank trust examination.

Robert A. Mullin, Deputy Comptroller of the Currency for International Banking

For consistently displaying outstanding performance in formulating and maintaining unusually high standards of bank supervision through the examination of the international departments of one hundred of the largest national banks and all overseas branches.

Calvin Ninomiya, Assistant Chief Counsel, Bureau of the Public Debt

For the outstanding ability and professional competence he has consistently displayed in dealing with a wide range of highly complex legal problems involved in the management and administration of the public debt.

Dario A. Pagliai, Deputy Commissioner, Bureau of Government Financial Operations

For distinguished service and exceptional competence in administering and directing a complexity of fiscal and monetary programs of national and international significance both in his present position and formerly as Deputy Treasurer of the United States.

Alan S. Shachter, Formerly Labor Relations Officer, Office of the Secretary

For outstanding competence and leadership and important contributions to the management and progressive effectiveness of the Department's Labor Relations Program throughout a period of rapid change and growth in the labor relations area.

Ronald C. Towns, Special Agent in Charge, Office of Investigations, U.S. Secret Service, Oklahoma City, Okla.

For distinguished service and unusual competence and dedicated personal leadership in originating, developing and implementing a sophisticated program for the gathering, analysis and retrieval of protective intelligence.

John O. Turner, Deputy Assistant Commissioner, Comptroller, Bureau of Government Financial Operations

For exceptional contributions to the successful operation of the financial management systems of the Bureau of Government Financial Operations and in his former position as Deputy Comptroller of the Bureau of Accounts.

Wallace Wasserstein, Director, Government Accounting Systems Staff, Bureau of Government Financial Operations

For exceptional resourcefulness and technical ability in developing effective and innovative systems of accounting having major impact on all Federal agencies, State, and local governments and the public at large.

EXCEPTIONAL SERVICE AWARDS

This is the highest award which may be recommended for presentation by the Secretary. The award is conferred on employees who distinguish themselves by exceptional service within or beyond their required duties.

Charles J. Bokinskie (Deceased), Formerly Customs Patrol Officer, U.S. Customs Service, Los Angeles, Calif.

In carrying out his duties, he heroically gave his life to prevent narcotics from entering the United States.

Weir M. Brown, Deputy U.S. Permanent Representative to the Organization for Economic Cooperation and Development, Office of the Assistant Secretary for International Affairs.

For dedicated service to the Department and outstanding contributions to the development of the framework of economic cooperation among the member countries of the OECD (Organization for Economic Cooperation and Development).

Sam Y. Cross, Deputy Assistant Secretary for International Monetary and Investment Affairs, Office of the Assistant Secretary for International Affairs

For outstanding competence and resourcefulness in coping with developments, often uncharted, in the complex field of international monetary policy and for invaluable advice and counsel to Treasury policy officials in preparations for and participation in intensive international monetary negotiations.

Louis D. Dixon (Deceased), Formerly Customs Patrol Officer, U.S. Customs Service, Los Angeles, Calif.

In carrying out his duties, he heroically gave his life to prevent narcotics from entering the United States.

Edward J. Fitzgerald, Jr. (Retired), Formerly Deputy Commissioner, Internal Revenue Service

For distinguished service to the Department and for exceptional contributions to the improvement of executive management in the Internal Revenue Service.

Robert R. Fredlund, Director, Office of Administrative Programs, Office of the Secretary

For his broad-gauged, imaginative leadership in improving the effectiveness of administrative programs throughout the Department, and for providing an unusually high calibre of administrative support to three successive Secretaries of the Treasury.

Raymond F. Harless (Retired), Formerly Deputy Commissioner, Internal Revenue Service

For exceptional service as Deputy Commissioner to two Commissioners of Internal Revenue and for his capable service for a period of time as Acting Commissioner at which time he represented the Service in appearances before Congressional committees.

John M. Hennessy, Formerly Assistant Secretary for International Affairs

For his exceptional contributions to the formulation and execution of Treasury policy on a wide variety of complex international financial issues, including bilateral aid, debt rescheduling, trade, monetary reform, and the provision of U.S. financial contributions to the resources of international development lending institutions.

Edmund J. Linehan, Director, Advertising and Promotion Branch, U.S. Savings Bonds Division

For consistently rendering invaluable advice, support and professional competence in providing effective and dynamic advertising material and promotional activity to further the objectives and carry out the mission of the Savings Bonds Division.

John P. S. Stemple (Retired), Formerly Assistant Director (Investigator Training) of the Consolidated Federal Law Enforcement Training Center

For consistently demonstrating initiative, imagination and superior managerial ability as a directing force in the establishment of a permanent interagency law enforcement training facility.

ARTHUR B. WHITE (Retired), Formerly Special Assistant to the Chief Counsel, Internal Revenue Service

For significant contributions toward the efficient operation of the Chief Counsel's Office, especially in the highly technical area of tax law interpretation and for his outstanding professional competence and leadership which have been a major influence in establishing and sustaining the high standards of the Chief Counsel's Office.

F. LISLE WIDMAN, Director, Office of International Monetary Affairs, Office of the Assistant Secretary for International Affairs

For outstanding contribution to the formulation and implementation of U.S. policies toward other industrialized nations and his outstanding capacity to perceive emerging problems, suggest innovative responses, and implement policy decisions.

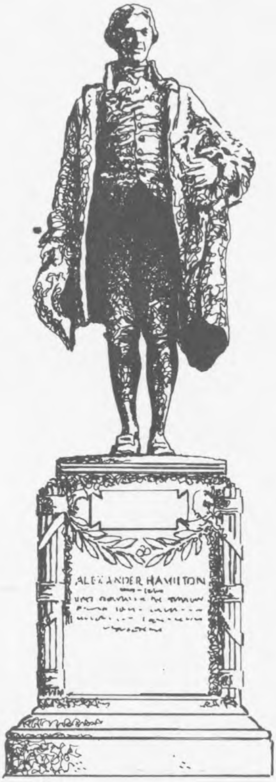
ALEXANDER HAMILTON AWARDS

This award is conferred by the Secretary to individuals personally designated by him to be so honored. It is generally restricted to the highest officials of the Department who have worked closely with the Secretary for a substantial period of time and who have demonstrated outstanding leadership during that period.

JAMES J. ROWLEY (Retired), Formerly Director, U.S. Secret Service

For exceptional professional competence and leadership and for outstanding public service to the United States during a career that included service under six Presidents.

U.S. GOVERNMENT PRINTING OFFICE:1974 O—558-358



ALEXANDER HAMILTON
First Secretary of the Treasury

Department of the TREASURY

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

NEWS

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FOR IMMEDIATE RELEASE October 18, 1974

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,700,000,000 , or thereabouts, to be issued October 31, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,700,000,000, or thereabouts, representing an additional amount of bills dated August 1, 1974, and to mature January 30, 1975 (CUSIP No. 912793 VT0), originally issued in the amount of $1,901,985,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,000,000,000, or thereabouts, to be dated October 31, 1974, and to mature May 1, 1975 (CUSIP No. 912793 WG7).

The bills will be issued for cash and in exchange for Treasury bills maturing October 31, 1974, outstanding in the amount of $4,503,660,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,676,735,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, 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 one-thirty p.m., Eastern Daylight Saving time, Friday, October 25, 1974. Tenders will not be received at the Department of the Treasury, 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.

Banking institutions and dealers who make primary markets in Government

(OVER)

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.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. 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 or Branch on October 31, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 31, 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 bills (other than life insurance companies) issued hereunder must include in his Federal 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.

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

Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE October 18, 1974

OFFICE OF ECONOMIC STABILIZATION ISSUES JULY 24--OCTOBER 17, 1974 PHASE IV DECISION LIST

MEMO TO CORRESPONDENTS:

The attached decision list describes the first remedial action taken with respect to the Phase IV executive compensation regulations. For the first time OES has issued a remedial order to Kimberly-Clark Corp. requiring restitution of $466,946 excess incentive bonuses paid to 27 top management executives in violation of the wage control rules. The item is listed on the attached page one and also, in detail, in a two-page addendum, by Andrew T.H. Munroe, Director, Office of Economic Stabilization, Department of the Treasury. His telephone number is 254-3275, or 254-8460.

Attachment

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From July 24, 1974 through October 17, 1974, the Office of Economic Stabilization (OES), Department of Treasury, has taken the following actions:

Compliance Actions

Remedial Orders

Coldwater Seafood Corp. - Remedial order issued requiring refunds of $186,000 for violation of base period profit margin limitation.

Kimberly-Clark Corp. - Remedial order issued requiring restitution of $466,946 excess incentive bonuses paid to top executives in violation of 6 CFR, Part 152, Subpart K. (See attached Addendum)

Remedial Orders Vacated

Cives Corp. - Vacated a remedial order requiring Cives to make refunds in the amount of its profit margin overage for its 1972 fiscal year.

Pentair Industries - Vacated the remedial order issued by IRS requiring Pentair to make refunds of $1.3 million for violating the base profit margin limitation.

Approval of Completion of Voluntary Compliance Plan

Goodin Co. - Accepted a certification of price reduction totalling $45,736.63 in full performance of the firm's voluntary compliance plan.

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Masco, Corp. - Accepted a certification of price reduction totalling $123,000 in full performance of the firm's voluntary compliance plan.

Compromise Settlement

OES has accepted an offer of $10,000.00 from the Caristo Construction Corporation in full settlement of civil claims based upon the following violation: profit margin violation for its 1973 fiscal year.

The Caristo Construction Corporation is located in Brooklyn, N. Y.

OES has accepted an offer of $150,000.00 from the John W. Cowper Company, Inc. in full settlement of civil claims for the following violation: profit margin violation for its 1973 fiscal year.

The John W. Cowper Company, Inc. is located in Buffalo, N. Y.

OES has accepted an offer of $500.00 from Neff Masonry, Inc., in full settlement of civil claims for the following violation: pay adjustment in May and July 1973, in violation of §201.10, 201.11, 130.76 and 130.79 of the Economic Stabilization Regulations.

Neff Masonry, Inc., located in Harrisonburg, Virginia, is a construction company.

OES has accepted an offer of $10,000 from Scripto, Inc. in full settlement of civil claims based upon an alleged profit margin violation for its 1973 fiscal year.

Scripto, Inc. is located in Atlanta, Ga.

Price

Requests for Exception - Approvals

Beverage Management, Inc. - Request for exception from the filing requirements applicable to food manufacturers required by 6 CFR 150.606.

Requests for Exception - Denials

Orrick Oil Company and Orrick Oil Company in behalf of Orrick Truck Stop - Request for exception from the provisions of 6 CFR Part 140 to increase the price of diesel fuel in excess of the freeze price.

Perdue, Inc. - Request for exception to the gross revenue formula of 6 C.F.R. 150.606(c)(1) as applied to its soybean operations.

Requests for Reconsideration - Approvals

Campbell Soup Co. - Request for reconsideration of an order of the Cost of Living Council denying petitioner's request that its subsidiary, Godiva Chocolatier, Inc., be allowed an adjustment of base period revenues in the gross margin formula so as to eliminate its first quarter overage.

Requests for Reconsideration - Denials

Scripto, Inc. - Request for reconsideration of an order of the Internal Revenue Service denying petitioner's request for an exception to the profit margin limitation contained in 6 CFR 150.11 for its 1973 fiscal year.

Health

Requests for Exception

OES acted on 217 Requests for Exception. Of that number, 5 were approved in full, 23 were partially approved, 32 were denied and 157 were closed or dismissed without prejudice.

Requests for Reconsideration

OES acted on 50 Requests for Reconsideration. Of that number, 2 were granted, 18 were partially approved, 17 were denied and 13 were closed or dismissed without prejudice.

Compliance Actions

OES acted on 315 compliance cases. In 18 cases it ordered price reductions and refunds, Notices of Probable Violation were issued in 25 cases, Notices of Probable Violation were vacated in 39 cases, Voluntary Compliance Agreements were accepted in 2 cases and denied in 1 case, and 230 cases were closed or dismissed.

Copies of all of the OES orders discussed above, except for the Notices of Probable Violation, are available for inspection at the OES Public Reference Room, 2000 M Street, N. W., Washington, D. C.

Addendum

The Office of Economic Stabilization (OES), Department of the Treasury, ruled in a Remedial Order issued on October 17, 1974, that the Kimberly-Clark Corporation, of Neenah, Wisconsin, paid excessive bonuses to 27 of its top management executives in violation of the wage control rules. The company was ordered to collect $466,946 from the executives. This amount represents excess incentive bonus payments made by Kimberly-Clark to its top corporate officers and directors in early 1974, for services performed by them during calendar year 1973.

In 1973, the Cost of Living Council issued regulations requiring every firm to designate an Executive Control Group (ECG) composed of its top officers and directors. Salary and bonus payments to the ECG were subject to separate mandatory wage control limitations. Payment of salaries or bonuses in excess of the applicable limitations could not be made without an exception granted by the Council. Exceptions were granted only in cases of extreme hardship or severe inequity.

The OES determined that Kimberly-Clark paid, under its incentive bonus plan, $466,946 over the applicable limit to members of its ECG, without requesting or receiving approval to make such payments. These payments were therefore made in violation of the Economic Stabilization Act of 1970, as amended.

In July 1974, the OES issued a Notice of Probable Violation to Kimberly-Clark, describing the violation and offering the company an opportunity to present evidence or arguments relating to the case or to collect the excess payments voluntarily from the top management executives involved. Since that time, representatives of Kimberly-Clark have met with officials of the OES. However, the company has not voluntarily accomplished the required restitution, so a Remedial Order was issued in accordance with OES regulations.

The Remedial Order directs Kimberly-Clark Corporation to collect $466,946 from the 27 affected executives not later than November 30, 1974. The company and its executives are permitted to determine the method of repayment and the amount each individual will repay, so long as the total amount is repaid. The Order also states that Kimberly-Clark should be required to pay civil penalties to the United States in the amount of $2500 per violation.

The affected parties may request the OES to review its order, and may appear personally before the agency. However, if the order is not altered or rescinded administratively, and if its requirements are not complied with, the case will be referred to the U. S. Department of Justice for prosecution.

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FOR IMMEDIATE RELEASE October 19, 1974

U.S.-U.S.S.R. AGREEMENT TO LIMIT SOVIET GRAIN PURCHASES

Secretary of the Treasury William E. Simon today announced conclusion of an agreement with the Soviet Union on purchases of U.S. grains during the current crop year.

The Soviet Union agreed to limit its total grain purchases from the U.S. this crop year to 2.2 million tons including 1 million tons of corn and 1.2 million tons of wheat.

An additional 1 million tons of grain contracted for earlier this month can be delivered from other exporting countries. The Soviet purchasing agency for grains will make the necessary purchase arrangements with U.S. export firms.

The Soviet Union also agreed to make no further purchases in the U.S. market this crop year, which ends next summer. Further, the Soviet Union agreed to work with the United States toward development of a supply/demand data system for grains.

The agreement followed talks in Moscow by Secretary Simon with Minister of Foreign Trade N. S. Patolichev. Secretary Simon was in the Soviet Union October 12-15 for the opening of the Moscow office of the U.S.-U.S.S.R. Trade and Economic Council.

The grain talks were scheduled following the Soviets' buying activity in the United States earlier this month. At that time, the Soviet Union placed orders with two U.S. export firms for the purchase of 3.2 million tons of U.S. grain, including 2.3 million tons of corn and 900,000 tons of wheat for delivery during the 1974/75 crop year which ends next summer. Following talks with President Ford on October 5, the presidents of the two export firms agreed to hold these sales in abeyance until after Secretary Simon's visit to Moscow.

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This year's Soviet purchases of U.S. grain will be small compared with purchases during the past 2 years. The Soviet Union bought 17 million tons of U.S. grain during 1972 and 7 million tons in 1973. The smaller purchases in 1974 are in line with smaller export availabilities of U.S. grain as a result of the disappointing corn harvest this year. The United States has harvested a record wheat crop, but the corn crop is expected to be down 16 percent from last year's record harvest. Total U.S. feed grain production is expected to be down 18 percent.

In his talks with Soviet officials, Secretary Simon emphasized that the United States wants to continue developing its agricultural trade with the Soviet Union. The Soviets advised Secretary Simon that the Soviet Union will have an adequate harvest this year but that imports are needed for specialized livestock production units.

Secretary Simon reviewed with Soviet officials the type of grain data that the United States receives from other countries that purchase U.S. grain. The Soviets agreed to work toward the development of a data exchange system on grain between the two governments.

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FOR IMMEDIATE RELEASE October 21, 1974

DETERMINATION OF SALES AT NOT LESS THAN FAIR VALUE ON 45 R.P.M. FLAT SPINDLE ADAPTERS FROM THE UNITED KINGDOM

Assistant Secretary of the Treasury David R. Macdonald announced today a determination that 45 R.P.M. Flat Spindle Adapters from the United Kingdom are not being, nor are likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. These adapters fit over the spindle of a record changer thereby enabling the automatic play of 45 R.P.M. records. Notice of this decision will appear in the Federal Register of October 22, 1974.

A Notice of Tentative Negative Determination was published in the Federal Register of August 15, 1974.

During the period of January 1, 1974 through June 30, 1974, imports of 45 r.p.m. flat spindle adapters from the United Kingdom were valued at roughly $500,000.

* * *

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October 21, 1974

FOR RELEASE 6:30 P.M.

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 October 24, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 23, 1975		26-week bills maturing April 24, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.109 a/	7.481%	96.299 b/	7.321%
Low	98.095	7.536%	96.237	7.443%
Average	98.098	7.524% 1/	96.260	7.398% 1/

a/ Excepting 1 tender of $10,000; b/ Excepting 1 tender of $200,000

Tenders at the low price for the 13-week bills were allotted 52%.
Tenders at the low price for the 26-week bills were allotted 59%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 43,340,000	$ 24,460,000	$ 29,750,000	$ 19,750,000
New York	3,829,665,000	2,302,855,000	2,666,275,000	1,565,880,000
Philadelphia	57,225,000	30,285,000	13,505,000	13,505,000
Cleveland	115,980,000	41,110,000	35,285,000	30,235,000
Richmond	48,685,000	27,885,000	37,435,000	27,985,000
Atlanta	33,700,000	31,275,000	28,580,000	28,465,000
Chicago	205,165,000	34,685,000	146,600,000	96,560,000
St. Louis	50,955,000	36,830,000	40,085,000	31,085,000
Minneapolis	12,985,000	4,985,000	10,640,000	10,140,000
Kansas City	39,905,000	32,190,000	26,940,000	25,730,000
Dallas	28,135,000	18,085,000	24,175,000	16,775,000
San Francisco	279,740,000	116,225,000	186,965,000	134,000,000
TOTALS	$4,745,480,000	$2,700,870,000 c/	$3,246,235,000	$2,000,110,000 d/

c/ Includes $423,740,000 noncompetitive tenders accepted at average price.
d/ Includes $281,500,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 7.78% for the 13-week bills, and 7.79% for the 26-week bills.

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FOR RELEASE AT 3:15 P.M., EDT,
OCTOBER 21, 1974

REMARKS BY THE HONORABLE STEPHEN S. GARDNER
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
AMERICAN BANKERS ASSOCIATION CONVENTION
HONOLULU, HAWAII
MONDAY, OCTOBER 21, 1974

Good Morning,

I am delighted to be asked to speak at your Convention. Until August 2, technically I guess, I was a member of the ABA, and no one had ever asked me to speak at this prestigious meeting. There may be a message here -- if you want to get ahead with the ABA, get out of banking or if you really want to impress bankers get out of the ABA.

Seriously, it is an honor and a priviledge to address this distinguished group, representative of one of America's great industries -- an industry that has been as innovative and progressive in the post-war world as any other complex of American business which characterizes the heretofore vaunted economic strength of our society. It is important that my assessment of your vitality is correct. We are at the confluence of a series of economic pressures unlike any this country has experienced since the '30's. The problems are different and, I believe, solvable; but they are forcing structural changes on our economy of great significance.

That is the reason I left an easier position in banking to go to Washington as Bill Simon's deputy. Since my commissioning on August 2, he has become the chief economic spokesman for the Administration and the Chairman of the Economic Policy Board, in addition to his Cabinet role as Secretary of the Treasury. And so I have the opportunity this morning to talk to you from two vantage points -- as Deputy to a principal economic policy-maker; and as a relative stranger to the Washington scene who has just had a unique opportunity to assess government with what you might politely say is a fresh perspective.

As many bankers, I was not much of a Washington watcher. A Chairman Patman watcher and a Fed watcher, yes. But an amateur political analyst and devotee, no.

Now I have a new deep respect for the people of government. The personal dedication and quality of work performed at the highest levels rivals anything I have seen in the private sector. There is professionalism and unique candor perhaps because of the stratification in government employment. Career people seem to spend less time telling the boss what he would like to hear and more time telling him what he should hear.

Certainly there is bureaucracy and inefficiency in Washington but not as much as you believe and there are no other words for working conditions except tough, and demanding -- the hours, the deadlines, the crises.

But the structure of democracy that we revere is the greatest challenge. The checks and balances work to perfection and unbelievably narrow the realm of the possible. The whole country is the Administration's constituency and most of those with smaller constituencies have to get elected every two years. Anything but unusual leadership has very little chance to manage.

With those comments I want to give you my perspective of the new Administration's potential for economic leadership.

It is good.

It is good because of the Administration's openness, candor and propensity to listen to the country, the experts and the Congress and make tough decisions.

Lets look at the economic summit.

On August 12, the economic crisis was elevated to the prime program target of a new Administration. Working quickly, a series of 12 mini-summit conferences were arranged across the country beginning on September 5th. Eventually, 900 people were invited for day-long meetings in Washington, Pittsburgh, Detroit, Chicago, Atlanta, Dallas, Los Angeles and New York. A steering committee of the Congress joined with the Administration in setting up the meetings, and a full public record was kept and published after each meeting. People of all persuasions and expertise were heard in these first meetings, and 323 suggestions and recommendations were catalogued and analyzed.

Then all the participants of all of the preliminary meetings were invited to Washington for a meeting of one and one-half days' duration, televised and covered by the press and chaired by President Ford. Selected delegates from each of the mini-summits presented their findings and the Congressional leadership spoke at length.

Immediately after the 12:30 adjournment on the 28th -- at 2:00 p.m. that Saturday afternoon, to be exact -- Administration experts from many disciplines of government began to analyze the record.

That team worked steadily through to Monday, October 7, sifting and weighing the record and developing position papers for the President on alternative courses of action. Then on October 8 -- 33 days after the process was first started -- President Ford went before the Congress to propose a comprehensive, 10-point program to combat inflation and cushion the effects of inflation for its hardest-hit victims.

It was a unique event in the annals of American government. We would be wise now to ask ourselves what it all meant.

More than anything else, it helped to educate the participants and the American people about the detail of the problems of our economy. It confirmed that there was no consensus for an easy panacea. It underlined the need for a broad attack on inflation on many fronts and the need to help those most seriously affected.

To many of us who participated, the conference also made another thing clear: that is, there is already a great deal of legislation awaiting action by the Congress that would specifically and effectively deal with the effects of inflation and would help to eliminate some of its causes. That list includes the Trade Reform Act, the Financial Institutions Act, and the Tax Reform Bill, among others, that have languished in committees for many, many months.

In his first address to the Congress, President Ford made it clear that he wanted to work closely with the Congress in pushing forward on the economic front. "My motto toward the Congress," he said, "is communication, conciliation, compromise, and cooperation." I think it is fair to say that the President's economic program was shaped within that imperative. In Government not too much gets done by acclamation.

There were many critics, but as at the summit conferences themselves they had difficulty focusing on one major flaw or one overriding cause to discredit the plan.

Most frequently it was said that the President's program was too modest, that it promised to bite the bullet but, instead, gave the standard anesthesia. In my view, that comment is unrealistic. To hope for overwhelming support of a broad, bold program involving many Congressional committees and subcommittees and partisan participants less than a month before a Congressional election strains ones imagination.

The President reminded us just a few nights ago, that he had asked the Congress for a three-month delay in Federal pay raises -- a delay that would have saved $800 million and was certainly justified -- but the Congress overruled him. And among the items that were specifically requested in the President's new 10-point program was a request that before it left for home the Congress place a $300 billion ceiling on fiscal 1975 spending. The next time you read about the failure of the President to ask for bold plans, you might ask yourself what happened to that request.

This is the first time in my memory that a proposed tax increase has been called "biting the marshmallow." I also cannot imagine that with as many social activists as there are in America there were many cheers for cutting $5 billion from Federal spending. I can't imagine that re-examining the Federal regulatory agencies and recommending changes will not gore someone's ox, nor do I believe that promising controls on oil consumption if voluntary and technological efforts fail to reduce foreign imports is a soft idea, easy for the American people to chew on.

The critics of the program to reduce oil imports by one million barrels a day apparently did not study the recommendations in the accompanying press release which proposed more than 20 ways that should be used to reach this goal and suggested that if we really went at it, we could save more.

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Then, too, those who have ruled against the cruel burden of a 5 percent surtax seem to overlook the fact that a family of four with an adjusted gross income of $20,000 a year might pay only $42 more in the 1975 taxable year. The $42 may be a burden but certainly it is not as cruel as the hidden tax extracted from their income by inflation.

You may also have read that the tax reform bill now before the House Ways and Means Committee and endorsed by the President is nothing but a travesty. This is the bill that would limit artificial accounting losses, would establish a minimum income tax beyond which tax shelters have no value, would impose a windfall profits tax on oil producers, would phase out oil depletion allowances, and would increase personal exemptions so that individuals in lower income brackets would gain some $1.6 billion in tax relief. Is this a travesty?

But we have heard the critics out and the first stage of the exercise has given some key indications of this Administration's character, resolve, and ability to deal practically with the second most serious economic crisis of this century.

There is hope that with such leadership the interminable partisan delays of government can be lessened. There is a disposition to make tough decisions and we have had evidence of that in other than the economic program.

And there is something else of equal significance. The program, in addition to dealing with the casualties of inflation, the crisis in energy, the control of federal spending, embraces and deals responsively and openly with the touchstone of free enterprise, the capital markets, investment, and business incentives. The liberalization of the investment tax credit, the deductibility of preferred dividends, the elimination of withholding taxes on foreign investments, the liberalization of capital gains taxation, the National Commission on Regulatory Reform proposal (which would hack away at the anachronisms of the thirties that are still with us restricting competition and raising costs) are measures that offer positive help to the business of creating jobs, improving efficiency and raising productivity. But the program is balanced and raises corporate taxes and promises more effective enforcement of laws against price fixing and bid-rigging, and increased anti-trust fines, so the critics could not and did not find the encouragement to business an overriding cause for discreditation.

If we can talk dispassionately again about the need for business profits, for encouraging investment, and finding ways to ameliorate the most severe environmental and regulatory restrictions, we have a chance to use all of our unique economic strengths to find the shortest and most direct route towards slowing inflation.

And time is against us. In your business and mine, I share your concerns about the ability of our institutions to hold strong against the financial strains of inflation, and the incredible shifts of dollar holdings. But I believe that the banking system is reacting with characteristic imagination and is making progress in adapting to the problem. Many of you, faced with overwhelming offers of short-term funds, are insisting on longer maturities and lower rates than the lenders would like. But the lenders are also beginning to show great wisdom, looking for other places to put their money, such as government securities, advance payments for imports, phased loans to governments, credits to nationalized industries and corporate borrowers, real estate, and equity of large corporations. These shifts into non-banking channels will help to ease these pressures.

I would also say that in our experiences with the financial authorities of the OPEC nations, we have generally found them to be responsible and conservative investment managers. Increasingly we are coming to believe that their future investments will be influenced by financial considerations that we have traditionally associated with Western-style capitalism.

And the question of whether wemay need additional recycling facilities, in our opinion, is not yet settled. So far, the existing complex of financial mechanisms, private and intergovernment, seems adequate. But government-to-government channels are also opening up, and we are seeing both the OPEC nations and our international institutions such as the World Bank and IMF become more responsive. Should the strains grow heavier, however, let me assure you that the U.S. will support the establishment of additional international lending mechanisms.

I said earlier that inflation is forcing structural changes of great significance on our economy. Banking will not and should not escape. But for different reasons and in a different economic climate you have been experiencing dramatic changes at your own instigation for the last few years.

The powerful economic forces now holding us hostage will accelerate this process, and some of the illogical patchwork of regulation and customs and practices that inhibit competition and weaken financial institutions will be among the casualties of structural change.

But I have no doubt but that you have the financial acumen and management skill to survive this era and capitalize on it.

And in a broader context I have no doubt but that the new administration, suffering no distractions, will continue with bold, practical programs, and tough decisions popular or not, to mobilize the country's resources against inflation.

I think the economic message and the process by which it was developed tells us this. It also gives me confidence that we will not accede to the clamor for controls on wages, prices and credit allocation and ever-increasing government but will rely again on the dramatic powerful incentives of a free market place that are the unique characteristic of America's greatness.

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Department of the TREASURY
SHINGTON, D.C. 20220 TELEPHONE W04-2041
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FOR RELEASE UPON DELIVERY

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ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE ELECTRONIC INDUSTRIES ASSOCIATION
9 P.M. PDT, OCTOBER 22, 1974

Good evening. It is a privilege to join you tonight for this anniversary celebration and to bring to you the warmest greetings and congratulations of the President of the United States. Your presence here marks not only five decades of achievement as an industry but a long history of contributions to our nation's welfare. Along with millions of other Americans, I take great pleasure in saluting you on this occasion.

I know that your celebration is not entirely carefree, for many of you are worried about the present state of our economy. Just last week I returned from a trip to Moscow, where an American delegation conferred with the Soviets on ways of expanding trade between our countries. Several distinguished representatives of the electronics industry took part in those conferences, and in our talks over a four-day period, I can assure you that they made me acutely aware of your concerns as leaders of the business community. Tonight I want to address some of those concerns directly.

My perspectives on our economy are shaped in large measure by my own experiences in the Government. When I first came to the Treasury two years ago, I was warned that I would have to worry far more about the prophets of gloom than the prophets of prosperity. That was good advice, and I think I've learned my lesson now.

My first experience came in the fall of 1973 when the Arab nations slapped on the oil embargo and oil prices began shooting up. Almost immediately there were dire predictions that the Western world was heading toward economic strangulation. More than one Congressman foresaw cold homes and closed schools, while others predicted unemployment rates in the neighborhood of 8-10 and even 12 percent.

In my opinion, the cries of imminent disaster were unjustified by the facts and ignored the flexibility of our economic system as well as the ability of our people to rise to the challenge. We went to work within the Administration with a program that many thought was far too timid, but through patience, determination, and a large degree of voluntary sacrifice by the American people, we came through that emergency with only minor dislocations to the economy.

Early this year, the prophets of gloom and doom shifted their focus to Watergate and the so-called crisis of the Presidency. Again there were dark predictions that the Republic could not stand the strain, that the government would come to a virtual halt, and that our democracy was headed for the scrap heap.

Experience once again showed that it was unwise to sell the American system short. The Congress proved that it could act responsibly, the work of government went relentlessly forward, and our people discovered that our political institutions were stronger and more resilient than anyone believed.

Looking back, there is a certain familiar syndrome to some of the difficulties we have faced in recent years. Too often, whether the challenge has been in our urban centers or in the rice patties of Vietnam, whether it has been the gas we consume or the air we breathe, we have found that our difficulties are blown far out of proportion. Suddenly the problems become crisis. Hands are wrung, alarms clang on the nightly news, and spirits are shaken.

I am afraid that it has become more fashionable to tear down America than to build her up. Our opinion leaders in politics, in the press, and in other walks of life are too quick to expect the worst and too impatient to work for the best. One critic has recently asserted that our establishment is now afflicted with a massive "failure and guilt complex"; he may be wiser than many of us admit.

I must add that the government is not without blame in this process. As soon as the rocks start flying, its spokesmen are immediately on the defensive and begin churning out so much fluffy-headed optimism that Herblock has rightfully asked whether the government owns a Good News Machine. The false headcounts in Vietnam are one example of official Good News, the promises of the Great Society are another. When the government oversells or overpromises, it is almost certain to confuse the public and eventually destroy its sacred trust.

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Fortunately, there has always been a middle ground where constructive action can go forward. While some people panic and others purr out the good news, our more responsible leaders roll up their sleeves, the American people pull together, and eventually we find a series of solutions. The problems may not be totally solved, but at least the crises go out of fashion.

There are lessons here for us all. Those in government have a responsibility to take off the rose-colored glasses and tell it precisely as they see it. Those outside the government, whether in the private sector or in political opposition, also have a duty to remain cool, stay away from loose talk, and avoid being stampeded into half-baked solutions.

I say all of this because I fear the doomsayers are at work again -- this time on our economy. I am not here to dispel all of the gloom: We do have genuine and serious problems on our hands. But we will only make them worse if we become captives of the extreme rhetoric that we hear too often today. One of my predecessors, George Humphrey, used to say that we can never spend ourselves rich. That is certainly true, but it may be possible that we can talk ourselves poor.

The solutions to our problems -- and I think there are solutions short of the apocalypse -- lie in the direction of intelligent restraint, reasonable sacrifice, and a shifting of priorities.

Let me review four of the more popular doomsday predictions that are now current about the economy and give you my own perspective on them.

The Oil Challenge

First, it is said that the oil cartel has our economy in a perilous, unbreakable hammerlock.

I would be the first to agree that the oil problem is of the first magnitude, especially for our European and Japanese friends as well as the developing nations. We estimate that OPEC countries received $15 billion from oil trade in 1972, $25 billion in 1973, and now with the quadrupling of prices, their earnings are likely to reach the $100 billion mark in 1974. Their trade balance for the current year is likely to be in excess of $50 billion, and by 1980, if present trends continue, their total accumulations could exceed $500 billion. Imbalances of this magnitude cannot continue. They are neither economically nor politically tolerable.

There are sound reasons to believe, however, that the present trends will <u>not</u> continue indefinitely.

The Arabs themselves now realize that their policies are exerting enormous pressures on consumer nations to become more self-sufficient. Since 1972, significant discoveries of oil have been made in 26 areas of the world -- outside the OPEC bloc -- and countries such as Britain are now working to convert these deposits into major sources of export trade. Here in the United States, we have vast quantities of natural resources. If we harness enough capital to our developing technologies, we can increase America's energy production far beyond what seemed likely before the embargo.

While Project Independence holds out our best hope for the future, we realize that it is long-range in nature and that we must take other steps in the meantime. As you know, the President has set a goal of reducing our current import levels of oil by one million barrels a day by the end of 1975. Some have suggested that we follow the example of France, placing a mandatory restriction on the quantities of oil we will import, but we prefer to follow a different course. First of all, we are seeking to make greater use of our own domestic resources, particularly coal and oil. With appropriate legislation, for instance, we can draw upon the oil deposits in our Naval Petroleum Reserves and we can require our electric utilities to convert from oil to coal. Second, we can achieve significant savings by cutting back on waste and unnecessary uses of energy. As we learned last year, voluntary conservation can and must be a vital part of our energy effort. Our goal of reducing imports may be tough, but it is not unrealistic, and we are fully capable of achieving it.

In my meetings with the Arab leaders, I have tried to impress upon them that their oil policies are not only bad politics but bad economics. One day they may find their oil market tending sharply downward -- and once it is gone, even lower prices will not bring it back. That argument has not yet persuaded them, but there are some recent indications that they have gained a better understanding of it. In the interim, it is up to us to practice vigorous conservation here at home, to pass the legislation that will expand our supplies, and to work more closely with all consuming nations, rich and poor. I am certain we can do each of these things, and if we do, we can overcome a major part of the energy challenge.

Maintaining a Healthy Financial System

A second and related concern of the modern doomsayers is the health of our financial system. They fear that the world will be unable to cope with the financing needs arising from high cost of the oil and that large, unpredictable flows of oil money will lead to the collapse of the international banking system.

The fact is that our present complex of financing arrangements has already proved that it can recycle large volumes of oil money. At first, the private financial markets played the major role and they played it constructively and imaginatively. The banks were faced with offers of far more short-term deposits than they could reasonably handle, and they began insisting upon longer maturities and lower rates of interest. The lenders soon began adapting by looking for additional places to invest their money, including government securities, credits to nationalized industries and corporate borrowers, and corporate equity. These shifts into non-banking channels are easing the pressures on the banking system, and ultimately they should reduce the possiblity of precipitous flows of money.

In more recent months, other channels have also been opened up in order to assist in the recycling. Oil exporting countries have begun to engage in direct loans, governments have begun to engage in more direct dealings with other governments, and the IMF oil facility has been launched.

Some, of course, are now pressing for the establishment of still more recycling facilities. Certainly, if a clear need for additional international lending mechanisms should develop, we would support their establishment. But as of this moment, we believe that additional study should be undertaken before new facilities are established.

Let me also add that in my personal experiences, I have found most of the financial authorities of the Arab nations to be highly responsible and conservative investment managers. We have every reason to believe that their future investments will be influenced by financial considerations that we have traditionally associated with Western-style capitalism.

Another factor contributing to the concern about the international banking system has been the highly publicized difficulties of several European banks and the failure of Franklin National, one of the largest American banks. But these problems were not associated with disruptive investment shifts of OPEC monies or with any failure or recycling mechanisms. Rather they stemmed from management defects which became evident in a climate of rapid inflation and rising interest rates. They are not an indictment of the banking system itself--that is still healthy. In this regard, I must re-emphasize that the government is not prepared to bail out the stockholders and creditors of commercial banks that fail because of bad management. As the Wall Street Journal recently noted, there should be "no safety net for bunglers."

Fear of a Great Depression

A third notion that we hear from the doomsayers is the fear that we are heading pell mell toward another Great Depression.

Let's look at the facts:

-- First, our economy today still has massive strengths. Plant and equipment spending is up 12 percent this year, and the record levels of unfilled orders are convincing evidence that this strong trend is continuing. Total employment hit another all-time high in September, and despite all the talk of world-wide economic collapse, American exports continue to grow rapidly.

-- Second, the dimensions of the present slowdown simply do not approach the depression years. In the 1930's unemployment soared to 25 percent; today, unemployment is less than 6 percent.

-- Third, the economic and financial structure is far different today. In the 1930's we allowed the economy to suffer a massive monetary dehydration, so that by 1933 the money supply had fallen by about 1/3 below what would have been consistent with full employment. The government was unwilling or unable to cope with bank failures and other difficulties; today, the Federal Reserve System has become a lender of last resort, while the Federal Deposit Insurance Corporation and its sister agencies stand solidly behind our financial institutions, giving depositors the confidence they need.

-- Finally, the structure of our economy has changed so that the men and women who hold jobs that are vulnerable to cyclical changes in the economy make up a much smaller part of our labor force than they did forty years ago.

In my opinion, the facts make it clear that we should have no fear of plunging over the precipice. Some of you may respond that if we are not on the brink of a depression, we are by some definitions in the midst of a recession. I do not want to quarrel with you on that issue, and I would certainly agree that there is considerable slack in the economy. The President also recognizes this fact, and through his proposals for an expanded public employment program, increased unemployment benefits and assistance for the housing industry, he is seeking to cushion the effects for those who have been hardest hit.

Granted that the economy has its weak spots, let me re-emphasize, however, that we are not headed for a depression. This point is extremely important, not simply to allay fears but to steer us away from the dangerous opinion that our first job is to stimulate the economy. Nothing could be more destructive, for a major campaign against an imaginary depression would drive prices through the roof and make the eventual cure to inflation much more painful.

Fears of Inflation

I come then to our fourth and final fear about the economy: the fear of a devastating period of inflation.

It is on this one front that I am often tempted to join my colleagues in conjuring up visions of an Armageddon. We are now in the grips of the worst peacetime inflation that we have ever known. As a society, we are not equipped to deal with it indefinitely. Our economy, particularly our financial system, is structured in a way that is inconsistent with prolonged, double-digit inflation. If allowed to continue unchecked, inflation could eventually set group against group and undermine our democratic institutions.

As inflation has mounted in recent months, Americans have already paid a heavy toll:

-- The average worker has suffered a 4 percent decline in his real spendable earnings over the past year.

-- Corporate profits are also being chewed up, despite what you read. After adjustment for the effects of inflation on inventory values and capital consumption allowances, the retained earnings of non-financial corporations in 1973 were less than one-fifth of what they were in 1965.

-- Similarly, there has been a decline of almost $500 billion in equity values for 30 million stockholders since early 1973, inflicting heavy potential losses on individual families, pension funds and a wide range of financial institutions.

The list could go on and on. But, once again, I would urge that this is no time to hang black crape all over the economy. Those who suggest, for instance, that we are heading for the runaway inflation that Germany suffered during the early 1920s are magnifying our problems far beyond their reasonable bounds.

To look on the brighter side, let's keep in mind that about half of our recent inflation can be attributed to special factors that were unpredictable and uncontrollable, and--more importantly--are unlikely to occur again. It is extremely improbable that oil prices will quadruple again, and by all rights they should retreat. Agricultural crops are more upredictable, but despite some recent deterioration, we are unlikely to have another price explosion of the 1973 scale. There should also be no fear of another devaluation of the dollar. As you know, we have had two devaluations of the dollar which achieved their main goal of making our exports more competitive, but as expected, also contributed temporarily to our inflation at home. In short, the influence of special factors in driving up the price level should be steadily weakening. That is good news for all of us.

What concerns me today is not the one-shot nature of these special factors but whether we have the will and the wisdom to cope with the other forces in our economy that bear equal responsibility for today's inflation and have been building up steam for so many years that they have a momentum of their own.

One of these is the burgeoning Federal budget. It took 185 years for this country to get the Federal budget up to the $100 billion mark, a line we crossed in 1961. Only nine more years were required to pass the $200 billion mark, and then only four more years to reach the $300 billion range. The rate of growth over the past decade has been almost twice that of the previous decade, and there has been only one budget surplus since 1956.

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When the Federal budget runs a deficit year after year, especially during periods of high economic activity which we have enjoyed over the past decade, it becomes a major source of economic and financial instability. The huge Federal deficits of the 1960s and 1970s have added enormously to aggregate demand for goods and services, and have thus been directly responsible for upward pressures on the price level. Heavy borrowing by the Federal sector has also been an important contributing factor to the persistent rise in interest rates and to the strains that have developed in money and capital markets. Worse still, continuation of budget deficits has tended to undermine the confidence of the public in the capacity of our government to deal with inflation.

If the present inflationary problem is to be solved and interest rates brought down to reasonable levels, the Federal budget must be brought into better balance. This is the most important single step that could be taken to restore the confidence to people in their own and our nation's economic future.

In my own view, monetary policy has also been overly stimulative in the past decade and must be regarded as another culprit of our current troubles. Between 1955 and 1965, the money supply grew at a rate of about 2-1/2 percent a year, and we enjoyed a period of reasonable price stability. Since 1965, the annual rate of increase in the money supply has more than doubled to 6 percent, and it is no accident that price levels have skyrocketed.

What, then, is to be done?

-- First, we must sharply rein in Federal spending. President Ford asked the Congress to set a $300 billion spending limit on the 1975 budget before it went home for the elections; I am sad to observe that the Congress has not complied. The $300 billion limit, in my view, is well within reason. In fact, I would prefer to work as rapidly as possible toward regular budgeting surpluses so that we could free up more funds for capital investments.

-- Second, we must enact new spending programs only if we are willing to pay for them. We have all heard the cheers for the President's proposals to liberalize the investment tax credit, to help the unemployed, and to prop up the housing industry, but what are we to make of the jeering at the proposal for a 5 percent surtax? It's time to be honest with the American people, to face up to the fact that if we vote for expensive new programs, we must pay for them -- either in regular taxes or in the form of the cruelest tax of them all--inflation.

-- Third, the Federal Reserve must complement this fiscal discipline by keeping a reasonably close rein on the growth of money and credit.

-- Fourth, we must begin shifting far more of our resources into capital investments. It is startling to realize that between 1960 and 1973, the growth in productivity for the average American was the lowest for any major industrialized nation in the Western world. Our annual growth rate in productivity was only 3 percent, compared to 6 percent for the French and Germans and more than 10 percent for the Japanese. And the reason is very clear: During these same years, the United States was devoting less than one-fifth of its total output to capital investment--one of the smallest percentages of any nation in the Western world. Productivity is the key to expanding our industrial base, and unless we reawaken to that fact, we are in for years of trouble.

-- Finally, I want to call for your support for President Ford's WIN program. The sceptics may wince at the old-fashioned patriotism of the WIN program, but I would suggest to you that these are the same sceptics who believed that Americans would never cooperate with the voluntary energy measures last year. They were wrong then, and they're wrong now.

Ladies and Gentlemen:

In speaking to you tonight, I do not mean to underestimate our problems or to deny that there may be rough weather ahead. If we leave our problems untended, a storm could break over our heads.

But I would urge upon you this single thought: America is still incredibly strong, powered by the largest and most dynamic marketplace in the world. Our President has proposed a program that is complex, multi-dimensional and toughter than many realize. We have the resources and we know the way to succeed. With firmness, with patience, and most importantly of all--with faith in ourselves--we will succeed.

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"If history teaches us anything," President Eisenhower once observed, "it is this lesson: so far as the economic potential of our nation is concerned, the believers in the future of America have always been the realists. I count myself as one of this company."

Let us hope tonight that more Americans will join that company in the days ahead.

Thank you.

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FOR IMMEDIATE RELEASE October 23, 1974

JAMES SITES NAMED SPECIAL ASSISTANT TO TREASURY SECRETARY FOR PUBLIC AFFAIRS

Secretary of the Treasury William E. Simon announced today that he will name James N. Sites as Special Assistant for Public Affairs. He will also be responsible for public affairs activities for the Secretary in his capacity as Chairman of the Economic Policy Board. He has been vice president in charge of the Washington, D.C. office of Carl Byoir & Associates for the past six years.

Sites will succeed Joseph Loftus, who retired earlier this year.

Sites, 50, has been a reporter and communications executive for 26 years. He is a native of Pittsburgh, holds a degree in journalism from Detroit's Wayne State University, and served four years in the U.S. Merchant Marine during World War II.

Sites has been an editor for the Whaley-Eaton newsletters, Business Week and the Chrysler Motors Magazine and has written extensively for national publications on economic and political subjects.

Prior to joining Carl Byoir & Associates in 1968, he served 14 years with the Association of American Railroads, where he was assistant vice president in charge of public relations.

In 1961 Sites was awarded an Eisenhower Exchange Fellowship for a year's study of foreign transport networks. His book, "Quest for Crisis," published in 1963, is considered an authority in this subject area.

Sites is a member of the national Press Club, the Public Relations Society of America (Accredited) and Kenwood Country Club. He is also on the editorial advisory board of Public Relations News and is a director of the Public Members Association, communications advisors to the U.S. Information Agency and the State Department.

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FOR IMMEDIATE RELEASE

OCTOBER 23, 1974

TREASURY SECRETARY SIMON NAMES ROBERT E. DEWAR SAVINGS BONDS CHAIRMAN FOR MICHIGAN

Robert E. Dewar, Chairman of the Board and Chief Executive Officer, S. S. Kresge Co., Troy, Mich., is appointed volunteer State Chairman for the Savings Bonds Program in Michigan by Secretary of the Treasury William E. Simon, effective November 17.

He succeeds William V. Luneburg, President and Chief Operating Officer, American Motors Corp., Detroit, who has served since November 1972. Luneburg will receive the Treasury's special "Twin-Seal Plaque", in recognition of his service.

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

He is a native of Traverse City, Mich., where he was born November 20, 1922. He attended Alma College, Alma, Mich., from 1940 to 1942. In 1943, he joined the Naval Air Corps, serving in the Pilot Control Bombing Squadron of Pacific Fleet Air Wing One. After his discharge in 1946, he attended Wayne State University, Detroit, from which he graduated with a LLB degree in 1948. He has also attended the University of Michigan Graduate School of Business Administration.

After a year of general law practice, Dewar joined Kresge's Legal Department in 1949. He was appointed Assistant to the President in 1960, and subsequently advanced through the following posts: Assistant Vice President, Finance, 1963; Financial Vice President, 1965; Administrative Vice President and Director, 1966; Executive Vice President, Administration and Finance, 1968, and President and Chief Administrative Officer, 1970. He assumed his present post in 1972.

Dewar is active in many business, civic and professional organizations, including -- National Business Council for Consumer Affairs; New Detroit Committee; Economic Club of Detroit; Michigan State Bar Assn.; Detroit Symphony Board; Detroit Institute of Arts Founders Society, and Detroit Athletic Club.

He and his wife, the former Nancy Miller, have three children -- Robert E., Jr., Jane Elizabeth and John.

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FOR IMMEDIATE RELEASE October 23, 1974

RESULTS OF AUCTION OF 4-1/2 YEAR TREASURY NOTES

The Treasury has accepted $1.0 billion of the $2.3 billion of tenders received for the 4-1/2 year notes auctioned today. The range of accepted competitive bids was as follows:

Lowest yield	7.78% a/
Highest yield	7.93%
Average yield	7.89%

The interest rate on the notes will be 7-7/8%. At the 7-7/8% rate, the above yields result in the following prices:

Low-yield price	100.349
High-yield price	99.787
Average-yield price	99.937

The $1.0 billion of accepted tenders includes 13 % of the amount of notes bid for at the highest yield and $0.2 billion of noncompetitive tenders accepted at the average yield.

a/ Excepting 2 tenders totaling $101,000

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FOR RELEASE ON DELIVERY

REMARKS BY THOMAS W. WOLFE
DIRECTOR, OFFICE OF DOMESTIC GOLD AND SILVER OPERATIONS
BEFORE THE AMERICAN METAL MARKET GOLD FORUM
HOTEL ROOSEVELT, NEW YORK CITY
WEDNESDAY, OCTOBER 23, 1974
2:30 P. M., E. D. T.

On next December 31 -- or earlier if the President so elects -- all statutory restrictions on the ownership of gold will end. Americans will be free to buy, sell and hold gold just as they do other basic commodities. There will be no residue of Government rules, regulations, guidelines or hints beyond those that would normally apply to business transactions in general. In short, the United States will have a gold market that is as free and open as in any country in the world.

The wording of the statute which provides for an end to restrictions on gold ownership best defines the new status of gold in the private market. Let me quote from the relevant section of P.L. 93-373 -- slightly edited for clarity.

> "No provision of any law . . . rule, regulation or order (now) in effect may be construed to prohibit any person from purchasing, holding, selling, or otherwise dealing in gold in the United States or abroad."

The Congressional intent that dealing in gold should have essentially the same status as trading in other basic commodities is clear. But this does not mean that gold will be accorded a unique status in the marketplace, exempt from laws and regulations generally applicable to trading in commodities. Government agencies -- Federal, state and local -- which have regulatory responsibilities over the financial and commodity markets can be expected to encompass gold in their activities where applicable and appropriate. Such agencies as the SEC, the Comptroller of the Currency, and the Federal Trade Commission are assessing their possible role when gold trading begins. The important consideration is that whatever monitoring or regulatory activity these agencies may undertake will be only in the context of existing statutory authority and not with the intent of singling out gold for special treatment.

At the present time we can't be certain how strong American demand for gold will be when controls end, but we do know that all of it will be reflected in higher imports in the absence of Government sales. If there are increased imports they will come from the only available sources of new supply, i.e., South Africa and the Soviet Union. A combination of strong demand for gold and higher prices could have a very substantial and adverse impact on the balance of payments for 1975. In this situation it seems prudent to be prepared to make gold sales from the Government stock if the need becomes clear. This would not involve more than a small percentage of our total holdings. In addition to reducing the balance of payments deficit such sales would increase federal receipts and effect a modest contribution toward a balance in the Federal budget.

The opening of the American gold market to all comers has naturally stimulated a good deal of thinking by would-be participants as to how banks, brokerage houses, department stores, and even a chain of beauty parlors, have been mentioned in the press as at least looking into the situation. In all of these plans the key consideration, of course, is how large the sustained demand for gold will be following an end to controls. I will not here hazard an opinion on this enigmatic question, but for those who are in the business of assessing the gold outlook I might offer a few facts on market behavior in the recent past which seems to me to be relevant.

The production of gold on a large scale is a relatively recent historical development. Nearly half of all gold production since earliest historical times has occurred in the past 25 years. Following World War II world gold output expanded rapidly and reached an all time high in 1970 of about 41 million ounces, according to Bureau of Mines estimates. Since 1970 world gold production has shown a substantial decline. In 1974 production of gold outside the Soviet Union is estimated to be only about 32 million ounces. This year the gold output in the United States will be not much over 1 million ounces.

On the demand side the industrial and commercial use of gold also rose rapidly after World War II, and by 1972 probably at least equaled world gold production. However, for most of the post war period -- well into the 1960's -- world gold production was substantially in excess of total private demand -- including investment as well as commercial and industrial consumption. The excess of supply was absorbed in official reserves which increased steadily until the mid-1960's. It should be noted that over this period the real price of gold -- in constant dollars -- declined steadily and reached an all time historical low in the first half of 1970.

However, although gold production has declined since the 1970 peak, industrial and commercial buying has declined even more sharply. We are once again -- as in the 1950's -- in a situation in which there is substantial surplus of gold production over basic demand. In 1973 and again this year the market demand for gold has been largely sustained by heavy purchases for speculation and investment.

Let me present a few figures on the American industrial use of gold which support this point. For many years American industry has been the largest constant buyer of gold in the world market. In the peak demand year of 1972, American net industrial gold consumption totaled 7.3 million ounces -- about 15 percent of the world supply. In 1973 U. S. industrial purchases declined to 6.7 million ounces. In the first half of 1974 U. S. industrial demand totaled only 2.2 million ounces, and for the full year is likely to be the lowest since the early 1960's. Estimates from other sources show a comparable world downtrend in industrial gold demand.

But while industrial gold buying has been on a sharp downtrend, a new demand factor has developed in the American market in the past year or so. In December 1973 the gold regulations were interpreted to permit the purchase of any gold coin originally minted prior to 1960, including restrikes of these coins in subsequent years. The practical effect of this interpretation was to open the American market to so-called "bullion" coins, mainly of Mexican and Austrian origin. As a result, in the first 8 months of this year Americans purchased nearly 2 million ounces of gold in coins valued at about $340 million. For the year as a whole, United States imports of gold will be between 8 and 9 million ounces -- perhaps 5 million ounces for industrial use and between 3-1/2 and 4 million ounces in bullion coins bought by individuals.

The significance of the volume of gold coin buying by Americans in 1974 should not be underestimated. It could be a reasonably accurate measure of the total investment demand for gold. These coins are widely available and it is likely that the great majority of Americans who have an inclination to invest in gold are fully aware of this availability. Moreover, in terms of gold content the price of these coins is comparable to the small gold units that will be available after the end of gold restrictions. In a practical sense, the supply-demand chanel of a major segment of the potential gold market has already been established.

This raises a further question as to what additional areas of non-industrial gold demand will be active in the coming year. In this connection, non-industrial gold buyers can, as a working hypothesis, be divided into two broad categories in terms of basic motive. First, there are the speculators, motivated mainly by the hope of short-run profits. The interest of this group is likely to focus on the futures market when gold is included among the commodities traded. It should be noted that the attention of speculative funds is attracted mainly by the expectation of price movements -- either way. Whether the anticipated movement is up or down depends on the changing preponderance of opinion.

The second major category of possible gold buyers might be termed the "safe haven" investors -- those who, grown fearful of all other investment outlets, somehow see gold as a safe haven -- the answer to a timid investor's prayer -- whose rising value will steadily parallel the cost of living index with perhaps a small annual bonus to boot. Although the recent price behavior of gold -- and indeed its historical past -- offers little support for a role as a guaranteed hedge against movements in the general price level, there is apparently a popular belief to this effect. But it remains to be seen whether this popular notion will be translated into a significant volume of investment and how well the faith stands up against the shock of adverse price movements.

In any event, it seems obvious that either the speculators or the safe haven investors are going to be sadly disappointed once the new gold market gets under way. My guess is that it will be the latter. The popular notion that gold is the answer to the timid investor's prayer requires an impossible combination of the rigidly fixed monetary price that prevailed for centuries prior to March 17, 1968 and the most favorable aspect of free price movements since that time. The key point is that the free gold commodity market which first came into being on March 18, 1968 represented a total break with the past and there is no turning back.

The significance of this change is profound. The traditions, institutional practices, and habits of thought pertaining to gold dealing which have their roots in the long historical period prior to 1968 are largely irrelevant in the new environment. Gold is now a commodity priced in a free market and with a highly volatile recent price record. Gold dealing in the United States under these conditions will be a wholly new activity for which the historical past offers no reliable guide. In this context, we can assume that those government authorities who have regulatory responsibilities over financial and commodity market activity will be keeping a close watch on developments, and it would be reasonable to expect that appropriate measures will be recommended if the situation so warrants.

But frankly, I do not expect any difficult long range problems to develop when the gold market gets under way. In the initial stages the inexperience of some buyers and sellers, and perhaps a degree of over-exuberance on the part of some of the dealers will probably result in temporary difficulties. But I would expect that for the most part these problems can be resolved by the institutional structure of the market itself and will not require direct government corrective action. As the commodity and financial markets become accustomed to gold dealing, the focus of public attention will gradually blur, the number of active traders will be thinned out to the essential specialists, and gold will assume its proper place in the hierarchy of world traded commodities.

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FOR RELEASE AT 8:00 P.M. OCTOBER 24, 1974

THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE FINANCIAL WORLD'S ANNUAL AWARDS BANQUET
NEW YORK CITY, OCTOBER 24, 1974

It is a great privilege to join you tonight for the Annual Awards Banquet sponsored by Financial World and to bring you the warmest greetings of the President of the United States.

For many of you, as you exchange views on the economy, I am sure that tonight's banquet is a more sobering experience than many in years past. The litany of economic problems is certainly formidable. Prices are still going up, while production and employment are turning down. Oil prices are still too high, and stock prices are too low. Consumer purchasing power is off, and consumer spirits have sagged even further. One politician out on the stump this fall is talking about a housewife who bought a three-pound steak and couldn't decide whether to barbecue it or bronze it.

I wish I could promise you the millenium in the morning, but I can't. Our problems are not going to disappear quickly. I would, however, like to suggest three propositions to you tonight.

-- First, the root cause of many of our difficulties and the cause upon which we must concentrate first and foremost is inflation.

-- Second, contrary to some reports, there is no mystery about the reasons for our inflation nor is there really any doubt about the cures.

-- Third, what we need now to whip inflation -- and I am convinced we can whip inflation -- is something that is in preciously short supply; the confidence and the courage to get the job done.

Inflation: The Chief Problem

Clearly the economy is now afflicted with both a high rate of inflation and relative slack in production. I would argue, however, that the slowing of the economy is far less threatening to us than inflation.

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While the slowdown is a serious concern, it is important to keep it in perspective. Our economy still has massive strengths. Plant and equipment spending is up 12 percent this year, and the record levels of unfilled orders are convincing evidence that this strong trend is continuing. While the rate of unemployment climbed recently, it is still less than 6 percent. We are also continuing to create new jobs in the economy -- more than 7-1/2 million in the past 4 years -- and total employment hit another all-time high in September. In addition, despite all the talk of a world-wide economic collapse, American exports are continuing to grow rapidly.

Some alarmists are warning us today that we are heading toward a Great Depression. I am convinced they are wrong. The economy is much stronger and healthier today than it was in the 1930s. Our unemployment rate is less than one-fourth of what it was then, and we have established income maintenance systems such as Social Security and unemployment compensation that put a strong floor under income levels. In addition, our banking system is much better equipped to deal with strains on the financial system, and the structure of our economy has changed so that we have far fewer men and women in jobs that are vulnerable to cyclical changes in the economy. In short, the facts make it clear that we should have no fear of plunging over the precipice.

Inflation, on the other hand, does pose a grave threat to both our economy and our society. We are now in the grips of the worst peacetime inflation we have ever known. Our economy, particularly our financial system, is structured in a way that is inconsistent with prolonged, double-digit inflation. If allowed to continue unchecked, inflation could eventually set group against group and undermine our democratic social and political institutions.

As prices have mounted in recent months, Americans have already paid a heavy toll:

-- The average worker has suffered a 4 percent decline in his real spendable earnings over the past year.

-- Corporate profits are also being chewed up, despite the headlines. After adjustment for the effects of inflation of inventory values and capital consumption allowances, the retained earnings of non-financial corporations in 1973 were less than one-fifth of what they were in 1965.

-- Similarly, there has been a decline of more than $400 billion in equity values for 30 million stockholders since early 1973, inflicting heavy potential losses on individual families, pension funds and a wide range of financial institutions.

Clearly, the public also perceives the dangers of inflation. The most recent Gallup poll shows that 81 percent feel that inflation is now their main concern, and this was the highest degree of concern for any problem that Gallup has registered in a quarter of a century. Another recent poll shows that 67 percent of all households believe that inflation will cause greater hardship than unemployment next year, while only 25 percent have greater fear of unemployment. Even among lower income groups -- those hardest hit by layoffs -- inflation outpolls unemployment as a problem by margins of about two to one.

I find it necessary to press these points tonight because we now face rising pressures from some commentators to shift our attention away from inflation to what they believe is a deepening recession. They urge that we abandon the idea of restrictive monetary and fiscal policies and once again pump more stimulus into the economy.

I do not want to quarrel over the question of whether or not we now have a true recession. That we can leave to the statistician. What is important is the basic fact, recognized by all, that we do have a combination of declining economic activity and virulent, double digit inflation -- stagflation if you will. What is equally important is that the President has proposed a broad, comprehensive and balanced program to deal these multidimensional difficulties -- a program that can and will work.

While the temptation to abandon restrictive policies in favor of general pump priming may be attractive to some, it is a temptation that must be stoutly resisted. If we choose that course, we will very rapidly find ourselves on the path to higher and higher rates of inflation and heading toward an even greater morass. Another round of rampant inflation, I'm afraid, would create almost irresistable pressures to establish a new system of mandatory wage and price controls -- controls that would probably be more complex and stultifying than before. Controls simply do not cure inflation; that is a lesson we all should have learned from the experience of the past three years. That is why the President remains adamantly opposed to them.

Furthermore -- and I think this is a point that is often overlooked -- an attempt to stimulate economic activity now would intensify rather than solve our problems of economic sluggishness and rising unemployment. We must remember that a primary cause of the slowdown was inflation itself. It was inflation, through its impact on our financial markets, that dried up the supply of mortgage credit and sent the housing industry into a tailspin. And it was inflation, through its debilitating impact on consumer confidence, that caused the biggest reduction of consumer retail purchases in postwar history. These are two sectors of the economy that have been the weakest, and thus it is inflation that bears major responsibility for the sluggishness and for rising unemployment. To pump up the economy now would only make those problems worse. In short, only by concentrating our primary attack on rising prices will we be able to wring out inflation and restore a pattern of healthy, stable growth to our economy.

Causes and Cures for Inflation

Let us turn then to the causes of our inflation and what must be done to cure it. In my view, it results from a series of misfortunes which can generally be categorized under the titles of bad luck, bad timing, and bad policies.

Under bad luck, the two most prominent items are food and oil. Food prices have risen enormously because of the decrease in worldwide crop production in 1972 and because of the triple whammy that crops have suffered this year in the United States -- a wet spring, a dry summer and an early frost. The story of oil prices is more familiar, and one which I need not repeat. It should be sufficient to point out that oil prices have quadrupled in a year and that the cost of oil imports this year will be $16 billion higher than in 1973.

As for bad timing, it is not generally recognized that most of the world's industrialized nations experienced a simultaneous boom in the early 1970s. One consequence was to put significant pressure on prices of all internationally traded commodities, pressure that is still rippling through the economy.

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Finally, I have listed the category of bad policy -- bad fiscal and monetary policy -- and because this issue is of fundamental importance, I want to pursue it for a moment.

By almost any measure, we have experienced a monstrous growth in spending by the Federal government. It took 185 years for this country to get the Federal budget up to the $100 billion mark, a line we crossed in 1961. Only nine more years were required to pass the $200 billion mark, and then only four more years to reach the $300 billion range. The rate of growth over the past decade has been almost twice that of the previous decade.

This growth may not have hurt us as badly had we been willing to pay for it, but since 1960 -- a period of 14 years -- we have managed a budget surplus in only one year. When the Federal budget runs a deficit year after year, especially during period of high economic activity that we have enjoyed during most of the past decade, it becomes a major source of economic and financial instability. The huge Federal deficits of the 1960's and 1970s have added enormously to aggregate demand for goods and services, and have thus been directly responsible for upward pressures on the price level. Heavy borrowing by the Federal sector has also been an important contributing factor to the steady rise in interest rates and to the strains that have developed in money and capital markets. Worse still, continuation of budget deficits has tended to erode the confidence of the public in the capacity of our government to deal with inflation.

Also, monetary policy must bear an equal share of responsibility for our current inflation. Like our fiscal policies, it has injected far more stimulation into the economy over the past decade than was either necessary or healthy. Between 1955 and 1965, the money supply grew at a rate of about 2-1/2 percent a year, and we enjoyed a period of reasonable price stability. Since 1965, the annual rate of increase in the money supply has more than doubled to 6 percent, and it is no accident that price levels have shot upwards.

Recognizing that these are the basic causes for our current inflation, what then is the cure?

To some extent, we are fortunate because the inflationary causes I have associated with bad luck and bad timing are gradually dissipating and are unlikely to occur again soon. Food prices are still rising too rapidly, but it is highly improbable that we will have another explosion of last year's magnitude. We are also unlikely to have another simultaneous boom among industrialized countries. And oil prices are no longer rising -- in fact, by all rights they should retreat.

Because of these special factors of food and oil account for almost half of our present inflation, we have reason to be hopeful of a decline in the rate of inflation. But we must not rest on hope alone. Even some decline in inflation will leave us with a very strong underlying rate of inflation -- perhaps 8 or 9 percent -- a rate of increase that is entirely unacceptable. Thus, we must also take strong and effective action.

As business leaders, the most important action you can take is to help maintain reasonable wage and price stability in the private sector. Until the past few months, workers showed admirable restraint in holding down wage demands, but now there are intense pressures to catch up. It is up to all of us--business, labor and government -- to work cooperatively together to keep both wages and prices at reasonable levels. As we do, we must recognize that we face a long, tough fight. Our problems did not develop overnight, but have been building up momentum over a decade. In just the same way, it will take time to purge them from our system.

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Within the government, we must continue to count on the Federal Reserve to maintain a close rein on the growth of money and credit. The restraint practiced by the Fed has already carried us part way to our eventual goal of curing inflation without imposing intolerable penalties on the economy's growth patterns. Personally, I believe that Arthur Burns and his colleagues deserve a great deal of credit for the courage and wisdom they have shown.

It is within the context of what the Federal Reserve has already accomplished that President Ford is now moving to curb inflation. The President has proposed a 31-point program that is much tougher than many realize and is aimed squarely at inflation.

One of its most important components it its frontal attack on the Federal budget. The President is asking that the Congress enact a $300 billion ceiling on this year's budget, and he has promised the necessary spending cuts to bring it into line. These cuts will reduce the Treasury's demands on the credit markets and permit interest rates to ease off. Thus the Federal Reserve will no longer bear the primary burden of the anti-inflation fight by itself. In my opinion, these budget proposals represent a major test of our fiscal discipline, because the actions taken now on the 1975 budget will determine the pattern of spending in 1976 and beyond.

A second major component of the Presidnet's program is a comprehensive attack on the energy problem. Over the long term, the President is urging that we get on with Project Independence -- with legislation to deregulate the price of natural gas, to accelerate off shore leasing, to speed up nuclear licensing, and the like -- so that we can become more self-sufficient in energy. For the short term, President Ford has set an ambitious goal of reducing oil imports by a million barrels a day by the end of 1975. To reach that goal, he is calling for an immediate expansion of domestic supplies and a return to the energy saving habits of last winter. It will not be easy to spur voluntary action when the emergency is not readily apparent, but through your efforts and through the efforts of thousands who will participate in the WIN program, we have great hopes for success.

Still a third component of the new economic package is a broad-guaged effort to alleviate the worst effects of the current squeeze and to pay for it through new taxes. Those hardest hit by our economic difficulties -- individuals in lower-income brackets -- would be helped through tax relief, an expanded public employment program and extended jobless benefits. The business community would be given additional investment incentives through an increase in the investment tax credit and a change in the Internal Revenue Code permitting tax deductions for preferred stock dividends. The President also asked for additional assistance for the housing industry, and just a few days ago he was pleased to sign such a bill into law.

These programs to cushion inflation where it strikes with disproportionate force are important for two reasons. First, Americans are compassionate people, always concerned with the underdog, the unfortunate and the disadvantaged -- and this fairmindedness should extend to those hardest hit by our economic difficulties. Second, if we are going to lick this inflation, it is going to be a long, hard effort, one that will require us to take the unpleasant-tasting medicine of fiscal and monetary restraint for some years to come. Only if we have effective programs to share that burden equitably will we have the necessary, broad political acceptance of those tough policies so that they can be maintained long enough to do the job.

But we should all recognize that each of these measures costs money, and if we are serious about fiscal discipline, we must raise new taxes. It's time to be honest with the American people, to face up to the fact that if we vote for expensive new programs, we must learn to pay for them, either in regular taxes or in the form of the cruelest tax of all--inflation. The President has chosen to bell the cat by calling for a 5% surtax. Many Congressmen have already written off the surtax because they think it is unpopular, but I submit that the surtax is a supreme test of our will to fight inflation.

A Question of Confidence and Courage

Looking over the economic scene, it becomes clearer to me each day that the overriding question is not whether we know how to cure inflation -- we do -- but whether we can summon up the confidence and the courage to get it done.

There is a certain sickness eating away at the American spirit. As we open the paper each day, we are confronted with the prophets of doom and gloom who tell us that our democracy is headed for the scrap heap. Our more fashionable opinion leaders in politics, in the press, and in other walks of life have become too quick to expect the worst and too impatient to work for the best.

I say to you that it is time to stop tearing down America and start building her up again. America is still incredibly strong, powered by the largest and most dynamic free marketplace in the world. We may have great weaknesses, but we also have great strengths. In fighting inflation, let us begin building on those strengths once again and bring an end to this ceaseless harping on what's wrong with America.

I don't mean to imply that if we change our attitude from pessimism to confidence, all of our problems will vanish. Boosterism is not what I'm talking about. What I'm talking about is hard work and realism and determination.

Let's also face the fact that the road will not be easy. To be blunt, we'll have to show far more guts that we have in the past. Since the days of the Great Depression, it has been an unstated policy in Washington that it is more important to ward off another recession than to worry about the creeping rise in prices. Inflation seemed like a small penalty to pay, and indeed, over the years it became the easy way out. This trend accelerated tremendously in the 1960s, when we set off on the biggest spending binge this country has ever known. Now the bills are coming due and we are asking people to tighten their belts, to endure a few pains as we bring this insidious disease under control.

So far, you will have noted that the Congress refused to go along with the President in delaying a pay increase for Federal employees. Similarly, it failed on his request to vote a lid on spending before going home for the elections. To me, this is a good lesson in showing just how tough the President's program is. In fact, the President is calling for a new kind of political courage in the United States, and only if we get it will we have a fighting chance against inflation.

Dr. Paul McCracken put it this way earlier this week: "The question is not whether the President's program is strong enough. The real danger is whether it is too strong for the marshmallow vertebrae in the congressional backbone."

For everyone's sake, let us hope that the Congress, the Executive, and indeed, the American people, stand up firmly to the test in the months ahead.

Thank you.

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FOR RELEASE ON DELIVERY

REMARKS BY THOMAS W. WOLFE
DIRECTOR, OFFICE OF DOMESTIC GOLD AND SILVER OPERATIONS
BEFORE THE AMERICAN BANKERS ASSOCIATION'S ANNUAL CONVENTION
HONOLULU INTERNATIONAL CENTER, HONOLULU, HAWAII
MONDAY, OCTOBER 21, 1974
2:00 P. M., LOCAL TIME

On next December 31 -- or earlier if the President so elects -- all statutory restrictions on the ownership of gold will end. Americans will be free to buy, sell and hold gold just as they do other basic commodities. There will be no residue of Government rules, regulations, guidelines or hints beyond those that would normally apply to business transactions in general. In short, the United States will have a gold market that is as free and open as in any country in the world.

A great many banks are taking a hard look at the possibility of actively participating in the new gold market. But being more regulation conscious than other sectors of the economy, many banks have asked whether they will be permitted to deal in gold. This is not an idle question. In contrast to the accepted legal status of individuals and non-financial corporations, banking powers under the law are exclusive and the omission of any power is an implied prohibition. However, national banks have the authority under Section 24 of the National Bank Act to buy and sell bullion, defined as gold and silver, subject, of course, to such conditions as the Comptroller of the Currency may consider appropriate. State chartered banks have comparable authority to deal in bullion under state banking laws. So, not later than next January 1 those banks that so elect may once again include gold in the range of services available to their customers.

The right to deal in gold by banks for their own or customer accounts does not, of course mean that all banks have an obligation to take on this function. Whether and in what way a bank may participate in the new gold market is a matter for management decision based essentially on the time honored profit motive. In making this decision any potential gold dealer should, of course, have some awareness of the present scope of the gold market -- who buys gold, how much, where it comes from -- and what new developments lie ahead. In this context let me briefly outline the supply-demand situation for gold in this country as it is now, set forth a few of the factors that are likely to effect changes following an end to gold controls, and offer a few thoughts on the potential role of the banks in the new environment.

The production of gold on a large scale is a relatively recent historical development. Since King Solomon's time the total production of gold throughout the world is estimated to be about 2-1/2 billion ounces. Nearly 80 percent of this amount has been mined since 1900 and about half of it in the past 25 years. Annual world gold output reached its peak in 1970 at about 48 million ounces. Of this total South Africa produced about 30 million ounces, the Soviet Union perhaps 7 or 8 million ounces, and the United States about 1-1/2 million ounces. Since 1970 world gold production has shown a substantial decline. In 1974 the production of gold outside the Soviet Union is estimated to be only about 30 million ounces. This year United States gold output will be not much over 1 million ounces.

On the demand side the industrial and commercial use of gold rose rapidly after World War II and by 1972 probably at least equaled world gold production. However, over the past couple of years commercial gold buying has dropped sharply -- largely in response to higher prices -- and is now substantially short of world gold production. In 1973 and again this year the market demand for gold has been largely sustained by heavy purchases for speculation and investment.

For many years American industry has been the largest constant buyer of gold in the world market. In the peak demand year of 1972, American industrial gold consumption totaled over 7 million ounces -- about 15 percent of the world supply. Since our mining production was less than 1-1/2 million ounces, United States gold imports in that year totaled nearly 6 million ounces. Over the past year or so industrial gold consumption in the United States has sharply declined, and gold bullion imports this year will probably be well under 2 million ounces.

But while industrial gold buying has been on a sharp downtrend, a new demand factor has developed in the American market in the past year or so. In December of 1973 the gold regulations were interpreted to permit the purchase of any gold coin originally minted prior to 1960, including restrikes of these coins in subsequent years. The practical effect of this interpretation was to open the American market to so-called "bullion" coins, mainly of Mexican and Austrian origin. As a result, in the first 8 months of this year Americans purchased nearly 2 million ounces of gold in coins valued at about $340 million. For the year as a whole, United States imports of gold will be between 8 and 9 million ounces -- perhaps 5 million ounces for industrial use and between 3-1/2 and 4 million ounces in bullion coins bought by individuals.

But what about the future? What will happen when gold controls end? At present we can't be certain how strong American demand for gold will be, but we do know that all of it will be reflected in higher imports in the absence of Government sales. If there are increased imports they will come from the only available sources of new supply, i.e., South Africa and the Soviet Union. A combination of strong demand for gold and higher prices could have a very substantial and adverse impact on the balance of payments for 1975. In this situation it seems prudent to be prepared to make gold sales from the Government stock if the need becomes clear. This would not involve more than a small percentage of our total holdings. In addition to reducing the balance of payments deficit such sales would increase federal receipts and effect a modest contribution toward a balance in the Federal budget.

In this new situation banks are considering various ways in which they might participate in the gold market. Options being considered cover a broad range from the simple direct sale of gold to investors all the way to fairly exotic instruments such as gold convertible CD's.

My colleagues on the panel will be enlightening you on the technical details of possible gold market dealing from a banker's standpoint. For my part I think it may be useful to offer a few cautionary thoughts on the possible scope of the new market.

The forecasts of demand in the coming year have ranged from a substantial surge in public buying and much higher gold prices to a minor ripple of demand that might generate a sell-off by disappointed speculators and an actual drop in the gold price. Let me present a few reasons that seem mildly persuasive to me why an extraordinary surge in gold demand may not occur.

(1) There is nothing in the American historical past to indicate any great public interest in holding gold. Gold was not widely held as a store of wealth here when it was freely available prior to 1933. It is worth noting that the Canadians have not been heavy gold buyers and the lifting of ownership restraints for the Japanese last year created only a short-run spurt in public buying which quickly faded.

(2) Since December 1971 the so-called "bullion" gold coins have been available for purchase by Americans in virtually unlimited quantities. But as I noted earlier, the demand for these coins has not been unduly heavy despite active promotion in the market.

(3) Holders of gold bullion, particularly in small amounts do not, in any practical sense, have a liquid investment. As a freely traded commodity there is always the risk of a substantial swing in the price. Over the past year the price of gold has made several short-run movements -- down as well as up -- of 15 percent or more. But even apart from the commodity price risk, there is a substantial gap between the buy-sell price necessarily quoted by dealers of gold in small quantities.

(4) Gold is an investment which gives 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.

(5) Investors in gold must take account of the very large stock of gold held in official reserves throughout the world. The United States alone holds about 276 million ounces, an amount several times larger than present annual world gold production. The possibility of using a portion of this reserve to satisfy new public demand is a factor that must be taken into account by any prudent investor.

(6) And finally, any banker contemplating gold dealing must recognize that he will face formidable competition from other sectors of the market, not to mention his fellow bankers. As a free commodity, gold in the coming year can be bought and sold by anyone. Whatever the extent of market demand the gold business is certain to be among the most highly competitive in the American economy. In this situation the profits to the average bank in gold sales are likely to be at best minor, even including a modest boost to the safe deposit rental business.

But even if the direct sale of gold turns out to be more of a cost burden rather than a source of revenue to banks, I doubt that our enterprising and innovative bankers will give up the game easily. For modern bankers the return of gold to commodity status in a sense turns the clock back to the 17th century when the goldsmiths of Lombard Street conceived the idea of issuing more and more paper receipts against less and less gold deposits and thereby established the basic principle of the modern banking system. But for American bankers of today there is a difference that should not be overlooked. Unlike the ancient Lombards, American bankers operate in an environment of long established and, on the whole, attentive federal and state regulatory authorities.

In assessing the gold market from a banker's viewpoint, the key point is that a free gold commodity market -- with fluctuating prices determined by essentially unpredictable supply and demand -- is a very recent historical phenomenon. As a practical matter the free gold market dates only from March 17, 1968 when the two-tier gold price came into being. For centuries prior to that date --the price of gold for anyone was rigidly fixed by political authorities based essentially on its monetary status. However, the one factor that has in the past distinguished gold from other commodities -- a fixed trading price -- has now gone by the board. The significance of this change, particularly for bankers, is profound. All of the banking traditions, institutional practices, regulations, and habits of thought pertaining to bank gold dealing, which have their roots in the long historical period prior to 1968, are largely irrelevant in the new environment. Gold is now a commodity priced in a free market and with a highly volatile recent price record. For banks, gold dealing under these conditions will be a wholly new activity for which the historical past offers no reliable guide -- either for the bankers or the bank regulators. In this context we can assume that the banking authorities will be keeping a close watch on developments, and it would be reasonable to expect appropriate guidance will be forthcoming if the situation so warrants.

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U. S. DEPARTMENT OF THE TREASURY

SECRETARY WILLIAM SIMON: EIA SPEECH

at 22-74

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CHAIR: Now it's my pleasure to introduce to you our speaker. Perhaps never in the history of our country and the world has the position of Secretary of the United States Treasury been more important. Our nation at this time is fortunate to have a man with a proven successful record both in industry and government to head this important cabinet position. With an extensive and successful financial background, Mr. Simon first joined the government in December of 1972 as Deputy Secretary of the Treasury. Since that time he has been responsible for heading up the President's Federal Energy Office, was Chairman of the Oil Policy Committee, and, in 1974, was sworn in as the sixty-third Secretary of the Treasury. As Secretary and chief financial officer of our country, Mr. Simon advises President Ford on all economic, fiscal and financial policies for this nation. In addition, he also plays a major role in formulating, recommending and coordinating international monetary and trade policy. And President Ford has just appointed him Chairman of the new Economic Policy Board.

He heads a department of over one hundred thousand people who collect the nation's taxes, pay the nation's bills, keep track of the government's accounts, print its money, issue its coins and manage the public debt. Mr. Simon also has major law enforcement responsibilities as supervisor of the U. S. Secret Service and the U. S. Customs. In addition, he serves as chairman and the United States' governor on many national and international councils and economic committees.

A native of Paterson, New Jersey, father of seven children, he has just returned from an important and successful trip to Russia. Mr. Simon speaks to us tonight about our nation's current economic and international financial problems. It's with a great deal of pleasure that I introduce our speaker to you for this evening, the Secretary of the United States Treasury, the Honorable William E. Simon.

[Applause.]

SECRETARY OF THE TREASURY WILLIAM E. SIMON: Thank you very much, Mr. President, distinguished guests. And in my spare time I play golf and tennis and swim. And I look forward to the year 2024 when I can come back and he'll invite me and talk with you about the then current problems that we have in our country, the environment and the economy and big government and the housing problems on the moon, and other things that really I cannot foresee at this time.

But at present, and tonight, I'd sort of like to just focus on some of the smaller problems, perhaps, that we have today, without daring to look into the future. And I want to say at the outset that it's a privilege for me to be here with you and celebrate this momentous occasion with you all tonight. And I bring you the warm greetings and warm wishes from the President of the United States.

[Applause.]

Your presence here marks not only five decades of achievement as an industry, but a long history of contributions to our nation's welfare. Along with millions of other Americans, I take great pleasure in saluting you tonight. I know that your celebration is not entirely carefree, for many of you are worried about the present state of our economy. Just last week I returned from a trip to Moscow where an American delegation conferred with the Soviets on ways of expanding trade between our two countries. Several distinguished representatives of the electronics industry took part in these conferences, and in our talks over a four day period I can assure you they made me acutely aware of your concerns as leaders of the business community.

Tonight I'd like to address some of these concerns directly. My perspectives on our economy are shaped in large measure by my own experiences in the government. When I first came to the Treasury two years ago, I was warned that I would have to worry far more about the prophets of gloom than the prophets of prosperity. Believe me, I have learned my lesson well.

My first experience came in the fall of 1973 when the Arab nations imposed the oil embargo, and then the oil crisis exploded. Almost immediately there were dire predictions that the Western world was headed toward economic strangulation. More than one congressman foresaw cold homes and closed schools, while others predicted unemployment rates of eight, ten, twelve percent. In my opinion, the cries of imminent disaster were unjustified by the facts, and they totally ignored the flexibility of our economic system, as well as the ability of our people, to rise to a challenge. We went to work in the administration with a program that many people thought was far too timid. But through patience and determination and a tremendous degree of voluntary cooperation on the part of the American people, and sacrifice, we came through that emergency with only minor dislocations to our economy.

Early this year the prophets of gloom and doom shifted their focus to Watergate and the so-called crisis of the presidency. Again there were dark predictions that the Republic could not stand the strain, the government would come to a virtual halt and that our democracy was headed for the scrap heap. Experience once again showed that it was unwise to sell our American system short. The Congress proved it could act responsibly. The work of government went relentlessly forward, and our people discovered that our political institutions were stronger and more resilient than anyone believed.

Looking back, there's a certain familiar syndrome to some of the difficulties we've faced in recent years. Too often, whether the challenge has been in the urban centers or the rice paddies of Vietnam, whether it has been the gas we consume or the air that we breathe, we've found that our difficulties are blown far out of proportion. Suddenly the problems become crises. Hands are wrung; alarms clang on the nightly news; and our spirits are shaken, understandably. I'm afraid it's become more fashionable

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to tear America down than to build her up.

Our opinion leaders in politics, in the press and in other walks of life are too quick to expect the worst and too impatient to work for the best. One critic has recently asserted that our establishment is now afflicted with a massive failure and guilt complex. He may be wiser than many of us admit. I must add that the government is not without blame in this process. As soon as the rocks start flying, its spokesmen are immediately on the defensive and begin churning out so much fluffy-headed optimism that Herblock has rightfully asked whether the government owns a good news machine. The false headcounts in Vietnam -- that's an example. The promises of the Great Society is another. When the government oversells or overpromises, it's almost certain to confuse the public and eventually to destroy its sacred trust.

Fortunately, there's always been a middle ground where constructive action can go forward. While some people panick and others purr out the good news, our more responsible leaders roll up their sleeves, the American people pull together, and, eventually, we find a series of solutions. The problems may not be totally solved, but at least the crises go out of fashion.

There are lessons here for us all. Those in government have a responsibility to take off the rose colored glasses and tell it precisely as they see it. Those outside the government, whether in the private sector or in the political opposition, also have a duty to remain calm, stay away from irresponsible talk and avoid being stampeded into half-baked solutions.

I say all of this because I fear that the doomsayers are at work again, this time on our economy. I'm not here to dispel all the gloom. We do have genuine and serious problems on our hands. But we will only make them worse if we become captives of the extreme rhetoric that we hear too often today.

One of my predecessors, George Humphreys, used to say that we can never spend ourselves rich. That's certainly true. But it may be possible that we can talk ourselves poor. And one of the gentleman who came up tonight to say hello while I was sitting here at the table said, "When are we going to stop talking ourselves down? My business is fine, and all my friends are fine. Sure, we've got problems, and, sure, we've always had problems. But why don't we stop this business? We can talk ourselves into trouble." And this is the message. This is the message that I find when I visit Middle America, which isn't all too often, unfortunately, because that's where the real heartbeat is in America. And I wish some of that could indeed move to Washington and the media.

[Applause.]

They asked me if I was going to "ad hoc" tonight, and I wasn't

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going to. But that was part of it. And I hope the media will indeed pick that up and play that back in New York City and Washington.

[Applause.]

Because I, frankly, am getting a little bit fed up with all of irresponsible conversation, because I think by now with the exposure that I've had you people know that I like to tell it like it is. And if it's bad news, that's all right. Sooner of later you're going to find it out any way, and I'll tell it to you just like I see it, because you'll understand -- [applause] -- and you'll respond like American people always have responded. We're tough people. And we work together to solve problems, just like we're going to work together to solve this one.

The solutions to our problems -- and I think there are solutions short of the apocalypse that some predict -- lie in the direction of intelligent restraint, reasonable sacrifice and some shifting of priorities. Let me review four of the more popular doomsday predictions that are now current about our economy and just give you some perspective on them.

First, it's said that the oil cartel has our economy in a perilous, unbreakable hammerlock. I'd be the first to agree that the oil problem is of the first magnitude, especially for our European and Japanese friends, as well as for all of the developing nations. The OPEC nations received fifteen billion from oil trade in '72; twenty-five billion in '73; and now, with the quadrupling of prices, they'll receive a hundred billion, approximately, in 1974. Their surplus for this year is going to be in the area of sixty billion dollars. And if present trends,continue, their total accumulated surplus could exceed five, six hundred billion dollars. Imbalances of this magnitude cannot continue. They are not, neither economically nor politically, tolerable. There are sound reasons to believe, however, that the present trends are not going to continue indefinitely. The Arabs themselves now realize that their policies are exerting enormous pressures on consumer nations to become self-sufficient. Since 1972, significant discoveries of oil have been found in twenty-six areas of the world outside of the OPEC bloc, and countries such as Great Britain are now working to convert these deposits into major export trade sources.

Here in the U. S. we have vast quantities of natural resources. If we harness enough capital to our developing technologies, we can increase America's energy production far beyond what seemed likely prior to the embargo. While Project Independence holds out our best hope for the future, we realize that it's long-range in nature and that we have to take other steps in the meantime.

As you know, the President has set a goal of reducing our current import levels of oil by one million barrels a day by the end of 1975. Some have suggested that we follow the French example of placing a mandatory restriction on the quantity of oil that we will import. But we prefer to follow a different course. First of all, we're seeking to make greater use of our own domestic resources, especially coal and oil. With appropriate legislation, for instance, we can draw upon the oil deposits of Naval Petroleum Reserve #1. We can require electric utilities to convert, where it's environmentally sound, from oil to coal.

Second, we can achieve significant savings by cutting back on waste and unnecessary uses of energy. As we learned last year, voluntary conservation can and must be a vital part of the our energy effort. Our goal of reducing imports may be tough, but it's not unrealistic, and we are fully capable of achieving it.

In my meetings with the Arab leaders, I have tried to impress upon them that their oil policies are not only bad politics, but bad economics. One day they may find their oil market trending sharply downward, and once it's gone even lower prices isn't going to bring it back. That argument has not yet persuaded them, but there are some recent indications that they're gaining a better understanding about it. In the interim, it's up to us to practice vigorous conservation here at home, to pass the legislation that will expand our supplies and to work more closely with all consuming nations, rich and poor. I'm certain we can do each of these things. And if we do, we can overcome a major portion of the energy challenge.

A second and related concern of the modern doomsayers is the health of our financial system. They fear that the world will be unable to cope with the financing needs arising from high costs of oil and that large, unpredictable flows of oil money will lead to collapse of the international banking system. The fact is that our present complex of financial arrangements has already proved that it can recycle large volumes of oil money. At first, the private financial markets played the major role, and they played it constructively and imaginatively. The banks were faced with offers of far more short-term deposits than they could reasonably handle, and they began insisting upon longer maturities and lower rates of interest. The lenders soon adapted by looking for alternate places to invest, including government securities, credits to industries and corporations, as well as equities. These shifts into non-banking channels have been easing the pressures on the banking system, and ultimately, they should reduce the possibility of precipitous flows of money.

In more recent months, other channels have also been opened up in order to assist in the recycling. Oil exporting countries have begun to engage in direct loans. Governments have begun lending to other governments and the IMF oil facility. Some, of course, are now pressing for the establishment of still more recycling facilities. Certainly if a clear need for additional international lending mechanisms should develop, we would support its establishment. But as of this moment, we believe that additional study should immediately be undertaken before new facilities are established.

Let me also add that in my personal experience, I have found most of the financial authorities of the Arab nations to be highly responsible and conservative investment managers. I have every reason to believe that their future investments will be influenced by financial considerations that we have traditionally associated with Western style capitalism.

Another factor contributing to the concern about the international banking system has been the highly publicized difficulties of several European banks and the failure of our Franklin National Bank, one of our largest. But these problems were not associated with disruptive investment shifts of OPEC moneys or with any failure of recycling mechanisms. Rather, they stemmed from management defects, which became evident in a climate of rapid inflation and rising interest rates. They are not an indictment of the banking system. It is healthy.

In this regard, I have to emphasize that the government is not prepared to bail out the stockholders and creditors of commercial banks that fail because of bad management. As the Wall Street Journal recently noted, there should be no safety net for bunglers.

A third notion that we hear from the doomsayers is the fear that we're heading pell-mell toward another Great Depression. Let's look at the facts. First, our economy today has massive strengths. Plant and equipment spending is up twelve percent this year, and the record levels of unfilled orders are convincing evidence that this strong trend is continuing. Total employment hit another all-time high in September, and, despite all the talk of a worldwide economic collapse, American exports continue to grow.

Second, the dimensions of the present slowdown simply don't approach the Depression years. In the 1930s, unemployment soared to twenty-five percent. Today it is under six percent.

Third, the economic and financial structure is far different today. In the 1930s, we allowed the economy to suffer a massive monetary dehydration, so that by 1933 the money supply had fallen by thirty-three percent. The government was unwilling and unable to cope with bank failures and other difficulties. Today the Federal Reserve System has become a lender of last resort, and the FDIC and its sister agencies stand solidly behind our financial institutions, giving depositors the confidence that they require.

Finally, the structure of our economy has changed so that men and women who hold jobs that are vulnerable to the cyclical changes make up a much smaller part of our labor force than they did forty years ago. In my opinion, the facts make it clear that we should have no fear of plunging over the precipice. Some of you may respond that if we are at the brink of a depression, we're, by some definition, in the midsts of a recession.

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I don't want to quarrel with you on this issue, and I would certainly agree that there's considerable slack in the economy. The President also recognizes this fact and, through his proposals for expanded public employment, increased unemployment benefits and assistance to the housing industry, he's seeking to cushion the effects for those who have been hardest hit.

Granted that the economy has its weak spots, let me re-emphasize, however, that we're not headed for a depression. This point is extremely important not simply to allay the fears, but to steer us away from the dangerous opinion that our first job is to stimulate the economy. Nothing could be more destructive, for a major campaign against an imaginary depression would drive prices through the roof and make the eventual cure to inflation much, much more painful.

I come then to our fourth and final fear about the economy, the fear of a devastating period of inflation. It is on this one front that I'm often tempted to join my colleagues in conjuring up visions of Armageddon. We're now in the grips of the worst peacetime inflation that we have ever known. As a society, we're not equipped to deal with it indefinitely. Our economy, especially our financial system, is structured in a way that is inconsistent with prolonged double-digit inflation. If allowed to continue unchecked, inflation would eventually set group against group and undermine our democratic institutions.

As inflation has mounted in recent months, Americans have already paid a very heavy toll. The average worker has suffered a four percent decline in his real spendable earnings over the past year. Corporate profits are also being chewed up, despite what you read. After adjustment for the effects of inflation on inventory values and capital consumption allowances, the retained earnings of non-financial corporations in 1973 were less than one-fifth of what they were in 1965. Similarly, there has been a decline of almost five hundred billion dollars in equity values for thirty million stockholders since early '73, inflicting heavy potential losses on individual families, pension funds and a wide range of financial institutions.

The list could go on and on, but, once again, I'd urge that this is no time to hang black crape all over the economy. Those who suggest, for instance, that we're heading for the runaway inflation that Germany suffered during the early 1920s are magnifying our problems far beyond their reasonable bounds.

To look on the brighter side, let's keep in mind that about half of our recent inflation can be attributed to special factors that were unpredictable and uncontrollable and, more important, are most unlikely to occur again. It's extremely improbable that oil prices will quadruple again, and, by all rights, they should retreat. Agricultural crops are

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more unpredictable, but, despite some recent deterioration, we're unlikely to have another price explosion of the 1973 scale. There should also be no fear of another devaluation of the dollar. As you know, we've had two devaluations, which achieved their main goal of making our exports more competitive. But, as expected, it also contributed temporarily to our inflation problem at home.

In short, the influence of special factors in driving up the price level should be steadily weakening, and this factor is good news for us. What concerns me today is not the one-shot nature of these special factors, but whether we have the will and the wisdom to cope with the other forces in our economy that bear equal responsibility for today's inflation and have been building up steam for so many years that they have a momentum all of their own. One of these is the federal budget. It took a hundred and eighty-five years for our federal budget to reach one hundred billion dollars, 1961. It took us nine years to get to two hundred billion dollars, and four years to get to three hundred billion dollars. The rate of growth over the past decade has been almost twice that of the previous decade, and there has been only one budget surplus since 1956. What a horrid record!

[Applause.]

When the federal budget runs a deficit year after year, especially during periods of high economic activity, which we have enjoyed ocer the past decade, it becomes a major source of economic and financial instability. The huge federal deficits of the sixties and the seventies have added enormously to the aggregate demand for goods and services and have thus been directly responsible for upward pressures on the price level. Heavy borrowing by the federal sector has also been an important contributing factor to the persistent rise in interest rates and the strains that have developed in money and capital markets. Worse still, continuation of budget deficits has tended to undermine the confidence of the public in the capacity of our government to deal with inflation.

If the present inflationary problem's going to be solved and interest rates brought down to reasonable levels, the federal budget must be brought into balance. This is the most important single step that could be taken to restore the confidence of the people -- [applause] -- in their own and our nation's economic future. In my own view, monetary policy has also been overly stimulative and has to be regarded as another culprit in our current problems. Between 1955 and 1965, the money supply grew at a rate of two and a half percent. For the past decade, it's grown at a rate of six percent, and it's no accident that price levels have skyrocketed.

What then is to be done? First, we must sharply rein in federal spending. President Ford asked the Congress to set a three hundred billion dollar spending limit on the '75 budget before it went home for the elections. I'm sad to observe that the Congress has not complied. The three hundred

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illion dollar limit, in my view, is well within reason. That's what I have written on this page. It's modest by any comparison, in my judgment. In fact, I would prefer to work as rapidly as possible toward regular budgeting surpluses so that we could free up more funds for capital investment.

If I can digress for a moment here, I was looking out the airplane window this afternoon after having read the Congressional Quarterly predicting what's going to happen in the congressional races. And I'm not a politician. I don't understand about these things. And I'll go back home and be sitting out in this audience in another year or two from now, where I was two years ago. And I testify a good deal in Congress. I had reason to research this recently, and I have made in the two years I've been there two hundred and fifteen or sixteen appearances in Congress -- in two years -- which seems to set some sort of a record. And I thought of the testimonies. If all these fellows are elected next year that the Congressional Quarterly told me are going to get elected, all these liberals in conservatives' clothing from what they're saying and from what I read in the newspaper, and I just shutter at the thought. Well, I'm sure I won't live through that experience of testifying before these big spenders when they arrive in Washington and what they'll do to all of you. So I caution all of you -- [applause] -- I don't care. I'm not a partisan fellow, and I don't care whether you go out and vote for the Republicans or Democrats, but make sure that the fellows that go -- that come down to Washington and legislate and run our country for us mean what they say and they're not back up here talking about cutting spending and it's all lip service.

[Applause.]

That reminds me of one of my testimonies recently where one of the senators said to me -- he said, "You know, aren't you happy, Mr. Secretary? We sent you down a letter to the President yesterday with fifty-four signatures demanding that the budget be balanced next year." And I said "That's just nifty, senator. And you know what you did? You made my day very happy. And the next day you passed two billion dollar relief for the beef industry." Eighty-seven votes passed that one. I'm not saying that the beef industry doesn't need it, but probably Wall Street does a little bit, and twenty-seven other industries at the same time. And if we don't at the same time find out where we're going to raise the money to pay for all this relief we're giving to everybody, then God help us a few years from now. And that's your responsibility right out there.

[Applause.]

But I'm getting off the track, and AP and UP and all the rest of them will be very angry with me, not to mention all my friends in the Senate and Congress, if it does get on the air.

Second, we must enact new spending programs only if we're willing to pay for them. It seems I just finished saying that. We've all heard

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the cheers for the President's proposals to liberalize the investment tax credit, to help the unemployed, to prop up the housing industry. But what are we to make of the jeering about the five percent surtax? It's time to be honest with the American people, to face up to the fact that if we vote for expensive or special new programs, we have to pay for them. We either pay for them in regular taxes, or we pay for them with the cruelest tax of all -- inflation.

[Applause.]

Third, the Federal Reserve must complement this fiscal discipline by keeping a reasonably close rein on the growth of money and credit.

Fourth, we must begin shifting far more of our resources into capital investments. It is startling to realize that between 1960 and 1973, the growth in productivity for the average American was the lowest for any major industrialized nation in the Western world. Our annual growth rate in productivity was only three percent compared to six percent for the French and Germans, more than ten percent for the Japanese. And the reason's very clear. During these same years the United States was devoting less than one-fifth of its total output to capital investment, the smallest percentage of any nation in the Western world. Productivity is the key to expanding our industrial base, and unless we re-awaken to that fact, we're in for years of trouble.

Finally, I want to call for your support for President Ford's WIN program. The skeptics are wincing at the old-fashioned patriotism of the WIN program. But I would suggest to you that these are the same skeptics who believed that Americans would never cooperate with a voluntary energy message last year.

[Applause.]

They were wrong then, and they're wrong now.

Ladies and gentlemen, in speaking to you tonight, I don't mean to underestimate our problems or to deny that there is going to be rough weather ahead. If we leave our problems untended, a storm is going to break out over our heads. But I would urge upon you this single thought: America is still incredibly strong, powered by the largest and most dynamic marketplace in the world. Our President has proposed a program that's complex and multidimensional and tougher than many people realize. We have the resources and we know how to succeed. With firmness and patience and, most importantly of all, with faith in ourselves, we will succeed.

If history teaches us anything, President Eisenhower once observed, it is this lesson. So far as the economic potential of our nation is concerned, the believers in the future of America have always been the realists. And I count myself as one of his company. And let's hope tonight that more Americans will join that company in the days ahead.

Thank you.

[Applause.]

CHAIR: Thank you, Mr. Secretary Simon for a very serious and attentive talk to, I think, a very serious and attentive audience. I think I might express the feelings of most of you when I say that your remarks are really encouraging.

Ladies and gentlemen, again as we continue our celebration this evening, I certainly want to thank Mr. Simon and Mrs. Simon for joining us, helping celebrate our fiftieth Golden Anniversary Celebration.

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FOR IMMEDIATE RELEASE October 25, 1974

TAPERED ROLLER BEARINGS
TREASURY ANNOUNCES CLARIFICATION OF DETERMINATION OF SALES AT LESS THAN FAIR VALUE

The Treasury Department issued today a clarification of its less than fair value determination in the anti-dumping investigation of tapered roller bearings from Japan. The Treasury notice states that the

> "determination was the result of price comparisons based upon verified information and data submitted throughout the period of investigation with regard to tapered roller bearings, including inner race or cone assemblies and outer races or cups, exported to and sold in the United States, either as a unit or separately, with identical merchandise sold in Japan."

Notice of the clarification will be published in the Federal Register of October 29, 1974.

Due to some confusion as to the definition of the term "tapered roller bearings" in the sales at less than fair value determination, the purpose of this notice is to clarify that term to indicate that the cone assemblies and cups, as defined above, were included and continue to be included in the sales at less than fair value determination.

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FOR IMMEDIATE RELEASE October 25, 1974

ANTIDUMPING INVESTIGATION INITIATED ON VINYL CLAD FENCE FABRIC FROM CANADA

Assistant Secretary of the Treasury, David R. Macdonald, announced today the initiation of an antidumping investigation on vinyl clad fence fabric from Canada.

Vinyl clad fence fabric consists of galvanized steel wire coated with plasticized vinyl chloride which is woven to form the mesh used as the body of chain link fences.

The announcement followed a summary investigation conducted by the U.S. Customs Service. Information received tends to indicate that the prices of the merchandise sold for exportation to the United States are less than the prices of such or similar merchandise sold in the home market.

Notice of this action will be published in the Federal Register of October 29, 1974.

During the period of July 1973 through June 1974, imports of vinyl clad fence fabric from Canada were valued at roughly $6 million.

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FOR IMMEDIATE RELEASE October 25, 1974

EXPORT CREDIT AGREEMENT

At the annual meeting of the International Monetary Fund and the World Bank earlier this month, representatives of France, Germany, Japan, Italy, U.K. and the U.S. held discussions which have led to the signing of an agreement on export credits. The countries have agreed that, as a general principle from now, public support for interest rates of each commercial export credit of a length longer than five years would be devised so that a rate at least equal to 7.5 percent should prevail.

In addition, the countries represented committed themselves as a general rule not to provide official support for export credits of three years or more for export transactions among themselves and with other wealthy countries.

This agreement to coordinate interest rates is related to, but distinct from, the negotiations on a gentlemen's agreement on export credits, on interest rates and other export credit conditions. Negotiations on that gentlemen's agreement will continue with the above and several other major countries.

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FOR IMMEDIATE RELEASE October 25, 1974

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, 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 November 7, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,700,000,000, or thereabouts, representing an additional amount of bills dated August 8, 1974, and to mature February 6, 1975 (CUSIP No. 912793 VU7), originally issued in the amount of $2,006,960,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,100,000,000, or thereabouts, to be dated November 7, 1974, and to mature May 8, 1975 (CUSIP No. 912793 WH5).

The bills will be issued for cash and in exchange for Treasury bills maturing November 7, 1974, outstanding in the amount of $4,556,850,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,620,690,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, 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 one-thirty p.m., Eastern Standard time, Friday, November 1, 1974. Tenders will not be received at the Department of the Treasury, 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.

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.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. 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 or Branch on November 7, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing November 7, 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 bills (other than life insurance companies) issued hereunder must include in his Federal 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.

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

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FOR IMMEDIATE RELEASE October 25, 1974

DR. SIDNEY L. JONES
NAMED AIDE TO TREASURY SECRETARY

Secretary of the Treasury William E. Simon today announced the appointment of Dr. Sidney L. Jones as Counsellor to the Secretary of the Treasury. Dr. Jones' office will be at the Treasury but his primary responsibility will be assisting the Secretary in his role as Chairman of the new Economic Policy Board. Dr. Jones has been serving as Deputy Assistant to the President and Deputy to the Counsellor to the President for Economic Policy.

The appointment is effective immediately.

Dr. Jones has been serving on the White House staff since July of this year. Previously, from July 9, 1973 to July 9, 1974 he was Assistant Secretary of Commerce for Economic Affairs. Prior to that he was Minister Counsellor for Economic Affairs in the U.S. Mission to the North Atlantic Treaty Organization at Brussels.

From August 1969 to August 1971, Dr. Jones served with the Council of Economic Advisers, serving first as a senior staff economist and then as Special Assistant to the Chairman. From 1965 to 1969 and during 1971-72, he was Professor of Finance in the University of Michigan's Graduate School of Business Administration. From 1960 to 1965, he was Assistant Professor and then Associate Professor of Finance at Northwestern University.

He has also been a director of Bradley Woods and Company, an investment advisory firm in New York City and Washington, D.C.

Dr. Jones was born September 23, 1933. He was valedictorian of the 1954 graduating class at Utah State University and then served as an officer in the U.S. Army until 1956. He received his M.B.A. (1958) and Ph.D. (1960) degrees from Stanford University.

He is married to the former Marlene Stewart. They have five children and live in Potomac, Maryland.

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REMARKS OF WILLIAM E. SIMON, SECRETARY OF THE TREASURY AT THE SECOND JOINT BOARD MEETING OF THE U.S.-U.S.S.R. TRADE AND ECONOMIC COUNCIL

MOSCOW, OCT. 15, 1974

Much has happened since the first meeting of the Joint Board last February in Washington. There have been unprecedented events in the political life of my country.

Many things have not changed. However, high among these is the desire of the United States to further the development of peaceful, fruitful relations with the Soviet Union. As President Ford told the Congress shortly after taking office, "To the Soviet Union, I pledge continuity in our commitment to the course of the past three years . . . there can be no alternative to a positive and peaceful relationship between our nations."

We are here today to discuss economic and trade relations between our countries. Nowhere is there more concrete evidence of the progress we are making than in this field. Our bilateral trade is rapidly approaching the three year goal of \$2-3 billion trade turnover which was set at the 1973 Summit. In 1973 alone, U.S.-U.S.S.R. trade turnover was \$1.4 billion. Although total trade is down somewhat this year after the exceptionally large agricultural shipments of 1973, U.S. sales of machinery and equipment products have risen sharply, and U.S.S.R. exports to the United States have shown a very substantial increase.

Seventeen American firms now have received permission to open accredited offices in Moscow. Eximbank loans for the Soviet Union have increased to 470 million dollars. Impressive contracts have been signed in the last nine months for the Kama River Truck Plant, the Moscow Trade Center, the Fertilizer Project, and equipment for gas pipeline development.

The U.S. Commercial Office opened for business in Moscow last spring. In addition to smaller exhibits staged in its display area, my Government recently sponsored U.S. firms' participation in two major Soviet trade shows (Health and Plastics Manufacturing Equipment) and organized a successful solo exhibition of American Machine Tools in Sokolniki Park.

Our two Governments are pledged to continue this momentum. In the Long-Term Agreement signed in June, both formally agreed to facilitate economic, industrial, and technical cooperation and exchange information on economic trends.

Progress has also been made in resolving the policy problems which could inhibit further growth. Soon after entering the White House, President Ford emphasized to Congress the importance he attached to granting Most-Favored-Nation status to the Soviet Union. I look forward to early resolution of the Trade Reform Bill which I believe will bring about satisfactory ExIm legislation. This will clear the impediments on the path of an expanding trade relationship.

The United States Government will continue to help clear away obstacles to improvement in our economic and commercial relations. In the final analysis, however, the action responsibility for each U.S.-Soviet commercial transaction rests with the private sector of our economy. It is for this reason that we encouraged the formation of the Trade and Economic Council, which brings together officials from your Ministries and trading organizations and top management representatives from our firms -- it is these people who are doing the actual work of expanding trade.

As we all know, the Council was formed as the result of a protocol entered into in June of 1973 by Minister Patolichev and my predecessor, Secretary Shultz. It's important, however, to remember that while the Council is the creation of the two Governments, on the U.S. side, it has been adopted by the private sector -- our business community. As an Honorary Director of the Council, I am pleased to note that the child of these two Governments is healthy and growing at a rapid pace, and I am pleased with the care and upbringing it is being given by the U.S. business community. Also, speaking for the U.S. Government, I voice our appreciation for the support and help given the Council since its inception by the Soviet Government.

While the role of the Council is to foster and promote the growth of the U.S.-Soviet trade and economic relationship and while I am confident that the U.S. Congress will approve legislation so necessary to the normalization of this relationship, I also envisage that out of this improved relationship will emerge a larger joint economic role for our two countries. Given the extraordinary global economic inter-relationship of all countries, there is a greater than ever need for responsibility and cooperation between nations. It is hard to conceive of a solution fair to all countries large and small in any area of major interest without the full and close cooperation of the U.S. and U.S.S.R.

Since February, the Council has developed into a fully functioning organization. Binational staffs are now at work on some sixty major projects in New York and Moscow. The Council has found excellent office space in Manhattan, and yesterday we dedicated the attractive offices on the Shevchenko Embankment. The Subcommittee on Science and Technology concluded a productive first meeting a few days ago in New York.

This is an excellent beginning, but it is only a beginning and I am confident that it foreshadows even greater accomplishments in the future as the Council realizes its full potential in the development of fruitful economic relations between our countries.

As an Honorary Director of the U.S.-U.S.S.R. Trade and Economic Council, I commend my fellow Directors and the Council Staff for the progress you have made so far. I wish you well in your deliberations at this meeting, and I urge you to work diligently to create an economic fabric between our two countries of so many strands so closely interwoven that not only is there no visible seam, but also that it is so strong as to be virtually unbreakable.

So while we work to intermesh and synchronize our different economic systems, we also work to prepare and strengthen ourselves for jointly addressing in harmony the problems of creating a better world for all countries and all people.

Department of the TREASURY NEWS
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FOR RELEASE 6:30 P.M. October 25, 1974

(91)

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

THIS WK. 7.892
LAST WK. 7.524
HIGHEST SINCE 9/16/74 8.185

lls and for $2.0 billion on October 31, 1974, **details are as follows:**

	26-week bills maturing May 1, 1975	
		Equivalent Annual Rate
High	0	7.714%
Low	8	7.817%
Average	4	7.766% 1/

(182)

were allotted 63%.
were allotted 17%.

THIS WK. 7.766
LAST WK. 7.398
HIGHEST SINCE 10/11/74 7.829

SERVE DISTRICTS:

District	**Applied For**	**Accepted**
Boston	,905,000	$ 10,440,000
New York	,985,000	1,675,955,000
Philadelphia	,110,000	10,050,000
Cleveland	,985,000	37,975,000
Richmond	,785,000	41,135,000
Atlanta	,075,000	12,775,000
Chicago	,595,000	62,595,000
St. Louis	,500,000	9,050,000
Minneapolis	,695,000	2,695,000
Kansas City	,910,000	20,895,000
Dallas	,110,000	13,110,000
San Francisco	,615,000	103,615,000
TOTALS	,270,000	$2,000,290,000 c/

ted at average price.
ted at average price.
ivalent coupon-issue
for the 26-week bills.

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

FOR RELEASE 6:30 P.M. October 25, 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 October 31, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 30, 1975		26-week bills maturing May 1, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.042 a/	7.746%	96.100	7.714%
Low	97.984	7.975%	96.048	7.817%
Average	98.005	7.892% 1/	96.074	7.766% 1/

a/ Excepting 2 tenders totaling $5,035,000

Tenders at the low price for the 13-week bills were allotted 63%.
Tenders at the low price for the 26-week bills were allotted 17%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 37,355,000	$ 27,355,000	$ 20,905,000	$ 10,440,000
New York	2,685,905,000	2,133,775,000	2,805,985,000	1,675,955,000
Philadelphia	27,100,000	27,100,000	35,110,000	10,050,000
Cleveland	52,520,000	52,520,000	57,985,000	37,975,000
Richmond	33,225,000	28,225,000	85,785,000	41,135,000
Atlanta	27,625,000	27,455,000	13,075,000	12,775,000
Chicago	200,220,000	144,220,000	182,595,000	62,595,000
St. Louis	41,260,000	26,260,000	32,500,000	9,050,000
Minneapolis	5,360,000	5,360,000	2,695,000	2,695,000
Kansas City	47,695,000	41,695,000	30,910,000	20,895,000
Dallas	21,290,000	21,290,000	18,110,000	13,110,000
San Francisco	184,950,000	164,950,000	170,615,000	103,615,000
TOTALS	$3,364,505,000	$2,700,205,000 b/	$3,456,270,000	$2,000,290,000 c/

b/ Includes $ 337,920,000 noncompetitive tenders accepted at average price.
c/ Includes $ 165,090,000 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 8.20% for the 26-week bills.

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

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STATEMENT OF THE HONORABLE EDWARD C. SCHMULTS
UNDER SECRETARY OF THE TREASURY
BEFORE THE
SECURITIES AND EXCHANGE COMMISSION'S
ANNUAL INCENTIVE AWARDS CEREMONY
THURSDAY, OCTOBER 24, 1974

I am pleased to have been invited here this afternoon to address you. Having been with the Treasury for about a year and a half now, I have attended some of our own departmental and bureau award ceremonies. These have been happy occasions and so I appreciate the opportunity to participate in your awards ceremony where members of the staff will be recognized for their significant contributions.

Treasury, with its manufacturing operations -- the Bureau of Engraving and Printing and the Mint -- and its law enforcement agencies, gives safety awards to units whose accident rates are kept low. I think that this past year has been one during which those of you whose business has taken you to Wall Street, Montgomery Street, or LaSalle Street, and who have made it back, deserve safety awards -- if not hazardous duty pay.

The SEC has earned a reputation over these past 40 years as being one of the "premier" organizations in the Federal Government. Your professional competence at every level is well-known throughout the securities industry and throughout Government at large. I know this to be true not only from my Treasury experience in working with you on recent securities reform legislation but also from a fifteen-year career as a securities lawyer. Personally, I believe this agency has never been stronger, both at the Commissioner and staff levels. But this is not to say that the SEC is perfect. Every Government agency can do better. There have been legitimate criticisms leveled at the Commission over its 40-year history. There also have been unjustified accusations and the recent harsh criticism coming from a troubled securities industry fits this label.

The basic charge has been that the Commission is not doing enough to help the industry in its present crisis. Contrary to what some would have us believe, the problems facing the securities industry have not been caused or intensified by SEC regulation. They stem from inflation and related fundamental changes which have adversely affected this country's capital markets. And looking at the other side of the coin -- just as the SEC is not the cause of these problems, it cannot provide the cure for them.

Inflation and the high interest rates it has brought are the real culprits behind the problems now facing our capital markets. I would like to spend a few minutes outlining Treasury's view of how inflation has affected our capital markets and how some of the Government's policies for curbing inflation will seek to remedy the situation which now exists.

It is no accident that the U.S. capital markets have achieved the preeminent place in the world's financial structure. The size of our markets is about three times that of all of the capital markets in the rest of the world combined. The basic underlying reason for this is that our money and capital markets have been free and competitive. Another reason -- largely due to the enormous contributions of the Securities and Exchange Commission -- is the confidence that investors have had in the fairness and efficiency of our markets. The response to this freedom and investor perception has been the development of a large array of different financial assets and institutions which have been tailored to the propensities and needs of investors and savers throughout our country; indeed, throughout the developed part of the world.

The outstanding performance of our capital markets during the past two centuries has been marred, however, by events of the past decade. During this recent period, our capital markets have been bruised and battered by an inflation which reached a record peacetime annual rate of 12 percent during the past year.

Let me briefly discuss the underlying causes of this inflation. The price explosion of 1973-74 is attributable to a series of severe and, I believe, temporary shocks that originated mostly outside the U.S. economic system -- coupled with almost a decade of excessively stimulative fiscal and monetary policies.

The temporary shocks I refer to include: the worldwide crop failures of 1972; scarcities of internationally-traded raw materials; the arab oil embargo and the subsequent quadrupling of the import cost of oil as a result of the policies adopted by the oil exporting countries.

But all these special factors would have run their course and faded away had our general economic policies not already 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 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 annual rate. Since 1965, 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.

This recent inflation has, in turn, caused serious disturbances in our capital markets. Interest rates have increased to levels that we have not previously known in over a century of recorded business experience. It should be noted that Government deficit spending not only has contributed to high levels of aggregate demand, but also has directly affected the level of interest rates. In 1969 new debt issues of Federal, State and local governments, and U.S. Government agencies amounted to 49 percent of all funds raised through borrowings in our capital markets; by 1973 the figure reached a staggering 67 percent. In other words, government was responsible for two out of every three dollars borrowed in our capital markets in 1973.

Corporate profits have been another casualty of inflation. 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 payments to obtain capital from investors, retained earnings available for new plant and equipment can be shown to have been only $2.8 billion. This represents a deep plunge from the 1965 and 1955 levels of $18.4 billion and $8.6 billion, respectively, in available retained earnings similarly adjusted.

Another way of measuring corporate profitability is to look at the rate of return on the replacement cost of plant, equipment, and inventories. In 1973 this rate of return was 3.4 percent, as compared with 9.4 percent in 1965 and 8.2 percent in 1955. This decline in rate of return has resulted from inflation-caused increases in the costs of replacing capital assets and decreases in the purchasing power of profits currently generated.

Inflation, high interest rates, and low corporate profits and rates of return have been the crucial factors in depressing all major indices of stock prices to the 12-year lows experienced this year. It is no wonder that investors, many with the real value of their accumulated assets heavily eroded by capital losses as well as by inflation, have adopted a cautious attitude toward committing new funds. This weakening of investment incentives has occurred at just the time when the need for new capital for energy development, mass transit, environmental requirements, industrial modernization, and other goals is most urgent.

After years of fiscal and monetary abuse, inflation is now deeply imbedded in our economy. Our financial and economic systems -- and in particular our capital markets -- have not been structured to operate with prolonged double digit inflation. Thus, given the statutory authority which the Commission has, it simply is not realistic to say that there could be some action which the SEC could take to restore the vitality of our capital markets.

What can be done? Control of the Federal budget is a vital component of our anti-inflation efforts. Over the past 14 years this Government has had one surplus and 13 deficits. It is imperative that fiscal policy join the anti-inflation fight rather than contribute to inflation. President Ford's policy to control spending and balance the budget and a disciplined monetary policy are essential prerequisites if inflation is to be controlled. Following such a course will directly benefit the capital markets since a balanced budget will reduce Government borrowing activities and enlarge the flow of savings available to the private sector for investment.

At the same time that we adopt this budget policy, there is a critical need to increase the productive capacity of the economy in the years ahead. To accelerate the growth of capital investment needed to do this, the President has proposed an increase to 10 percent in the investment tax credit, as well as a restructuring of it. He also has proposed that the dividends paid on qualified preferred stock be allowed as a tax deduction to the paying corporation. This proposal should encourage corporations to raise new equity capital, and thereby improve their capital structure as well as enhance their aggregate capital investments. In addition, we are working with the Congress to liberalize the tax treatment of capital gains and losses so as to facilitate the flow of capital to the most productive investments. Finally, we are supporting pending legislation to eliminate the withholding tax on interest and dividend income accruing to foreign holders of U.S. securities. Elimination of this tax would stimulate a larger flow of funds to U.S. capital markets. The importance of all these policies is a clear recognition that we must begin to shift far more of our resources into capital markets.

To focus more specifically upon the present problems of our capital markets, and steps that might be taken to alleviate them, as you may know, Secretary Simon is establishing a special office devoted to capital markets policy. We feel that this is an action that is long overdue. Some of the points raised in my talk illustrate Treasury's role with regard to the capital markets and the ways in which our policies can promote investment and savings decisions. Tax policy, the government securities business, and our general financial and economic responsibilities are some of the major areas where the policies we formulate affect the capital markets. Our international experience will also be of major benefit in focusing upon developments in world capital markets -- particularly the role of private markets in the recycling of oil revenues. I stress that we see our role as complementary to, and not competitive with, the work of this Commission. As we undertake our new responsibilities, we look forward to working in close partnership with your agency and the Congress. Since it appears that fiscal and monetary policy over the last decade has been the prime underlying cause of inflation, perhaps we can begin by bearing some of the current criticism coming from the securities industry and thus make your task of regulating that industry in these troubled times a bit more bearable.

Chairman Garrett told me that this would be a gala occasion and so my remarks should be happy and light. I chose to overlook his injunction because it was not followed up by a staff letter of comment. The statistics I mentioned were neither happy nor light, but I think they are more meaningful than the reaction of the statistician who, when observed with one leg in a bucket of ice water and the other in a bucket of scalding water, was asked how he felt and replied, "On the average, not bad."

In closing, I want to offer my congratulations to those of you who will be receiving awards here today. You and the others in the audience who are with the Commission can be proud of your agency's achievements over these past 40 years. I am confident that on your 50th birthday the staff will look back with pride on the significant contributions that this group will have made to the vitality of our capital markets. For you, more than any other group or organization, are responsible for building investor confidence in the integrity of this country's capital markets.

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Department of the TREASURY
NEWS
ASHINGTON, D.C. 20220 TELEPHONE WO4-2041
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FOR RELEASE AT 12:30 P.M., EDT
SATURDAY, OCTOBER 26, 1974

REMARKS OF THE HONORABLE EDGAR R. FIEDLER
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE INAUGURAL MEETINGS OF THE
EASTERN ECONOMIC ASSOCIATION
ALBANY, NEW YORK
OCTOBER 26, 1974

Day before yesterday, the New York Stock Exchange celebrated -- if that's the word -- the 45th anniversary of "Black Thursday", the beginning of the debacle on Wall Street in 1929. Although the debacle of 1974 on Wall Street has induced some comparisons with the events of 4-1/2 decades earlier, our economic difficulties today are of a very different nature and origin than those following 1929. Then the primary problem was depression with its shockingly high rate of unemployment. Today our primary problem is the shockingly high rate of inflation.

This is not to say that our economic difficulties today are of only one dimension. We not only have inflation, but sluggish economic activity along with it. In a word, stagflation. But I put the inflation dimension of our problems at the head of the list, not only because it is so severe and not only because the decline in activity will be (by 1930's standards at least) quite limited, but also because the basic source of the weakness in activity comes from the inflation itself.

This is a point worth some emphasis. The same forces causing prices to rise so virulently are also producing the economic downturn. It has been inflation that has dried up the supply of mortgage credit and sent housing into a tailspin. And it has been inflation that has crushed consumer confidence and put the brakes on consumer spending harder than at any time since World War II. These are the two weakest sectors of the economy, and thus it is the inflation itself that is the basic cause of our economic sluggishness and rising unemployment. In shaping policy to deal with our economic difficulties, therefore, we must continue to put top priority on the fight against inflation -- even though it is so much easier and, from a short-term point of view so much more enjoyable to fight recession.

Causes of Inflation

What policies we use to counter inflation depend in part on its causes. In the long-run, e.g., two decades, the monetarists are right: It is the supply of money that is the strategic variable in determining what happens to the general price level. But to know that is not much help in solving the problems we face in the short- and intermediate-range future. We must know what it is that causes changes in the quantity of money. Equally important, we must recognize that there can be extremely important non-monetary influences on the general price index in the short-run.

On this latter point we have had over the past couple of years two of the most prominent examples imaginable: food and energy. In the long-run, what happens to prices of individual commodities, or commodity classes, is of little or no consequence to the rate of inflation. But in the short-run, even for several years, commodity groups as important as food and fuel can have a very powerful effect.

Workers Loss of Income

While on this topic, there is a related point that deserves much more attention than it has received. When real incomes are discussed, we often hear statements like, "inflation has cut the real spendable purchasing power of the average nonfarm worker's paycheck by 4 percent over the past 12 months". In a pure arithmetic sense, that statement can't be denied. Yet it seems to me to misrepresent what has actually taken place, namely a transfer of real income out of the pockets of nonfarm workers.

Farm prices went up because food supplies went down, through natural causes. Energy prices went up because oil supplies went down, through unnatural causes. In both cases, to get the food and fuel he wants at higher relative prices the nonfarm worker must give up more of his real income to farmers and to owners of oil both here and abroad. Thus it is the reduction of supplies of both food and fuel that is the real cause of the worker's loss of real income, not the inflation. The inflation is a measure of what has taken place, but not the cause of it.

This point is not just a matter of semantics or a nice essay question for Economics 201, but also has serious ramifications for our future rate of inflation. Quite understandably, workers do not want to accept this loss of real income -- they don't want to be taken advantage of by either a quixotic Mother Nature or by the countries that produce petroleum. Workers want that real income back. Accordingly, wage demands and wage settlements have escalated sharply since the end of controls. But since the worker's loss was not his employer's gain -- i.e., corporate profits in almost all sectors of the economy are still in the normal range -- there is no way for these accelerated wage pressures to be met except through another round of price hikes. The attempt by workers to catch up, to make up for their lost real income, is thus doomed to failure. As a group workers will be no better off -- and we are all likely to be worse off. The price increases associated with reduced supplies of food and fuel will have been built into the system; they will have become embedded into our inflation rate on both the wage and price sides.

More Fundamental Causes

But the horrendous rate at which the price level has been rising is not due solely to bad luck, as in the case of food and fuel. It is also traceable to the dogged pursuit of bad policies for a decade or more, including:

- Fiscal policy; not only the rapid growth of spending from the mid-1960's on with its accompanying deficits in prosperous years as well as slack years, but also the massive proliferation of off-budget lending programs.
- Monetary policy; the accelerated growth in money and credit throughout the past decade, over and above what was in some sense "mandated" by Federal spending and lending programs, and which has succeeded only in bringing us higher prices and higher interest rates.
- The maintenance for many years of an internationally overvalued dollar, which dampened inflation in the United States, but contributed to the inadequate expansion of capacity by most of our basic materials industries -- steel, paper, etc. -- where almost all of our inflationary bottlenecks were experienced in 1973 when we

reached the limits of economic expansion. Then, when the devaluations of 1971 and 1973 occurred the U.S. suddenly became the most favorable place to buy those scarce raw materials, which added another special burst of price pressures to our recent inflation.

-- Wage and price controls, which did little to control inflation overall but which did, in those areas where prices were suppressed, create economic distortions. Perhaps the best examples are those same basic materials industries, where controls kept prices and profits at low levels causing expansion plans to be further delayed. Then in the Spring of 1974, when the controls ended, those price pressures came out of the bottle with a rush.

Thus bad economic policies joined hands with bad luck to create the rampaging inflation we are stuck with today. How much of the inflation we should allocate to each cause is impossible to determine, because of the strong interactions that are surely involved. We can safely say, however, that the country would have been in much better shape to weather the food and fuel crises without so much inflationary damage, had we not had bad economic policies for so long.

In this catalogue of the causes of inflation, I have not thus far said anything about oligopoly, administered prices and wages, and the greed of labor leaders and business managers. The omission is deliberate. Not that such conditions and characteristics do not exist. Quite the contrary. Greed, for example, is as prevalent in business and labor as it is in academe, in politics, and everywhere else. But I personally do not see greed or oligopoly or administered prices and wages as bearing any major responsibility for our inflation.

Cures for Inflation

About the only sure thing that can be said about curbing inflation is that the process is unpopular. Catching the inflationary disease and then curing it are like a wild night on the town: the first few drinks appear to have decidedly pleasant effects, but oh that hangover!

Since bad luck was a significant part of the acceleration of inflationary momentum over the past few years, it would be nice if we could have a run of good luck to help us with the deceleration. We had better not count on it, however.

The critical requirement is to pursue the necessary monetary and fiscal discipline consistently and persistently to keep the economy operating within the limits of its capacity to produce. It is essential, in my opinion, that we establish and maintain a moderate degree of slack in the economy for a number of years.

This does not mean a depression. Decidedly not. After a period of weakness, of the sort we are now in, it is vital that economic growth resume at a normal pace. Business sales can show a healthy growth, but that growth will have to be constrained so that if one businessman tries to raise prices too fast there will be a competitor someplace with extra capacity who will take the orders away from the first company. Employment can grow, too, but our labor markets must have a little slack in them, so that the joint worker-management process of wage determination can result in a gradual deceleration of the upward trend of pay scales. A small gap will have to be maintained between our total economic capacity and the level of demand, if we are to achieve a meaningful slowdown in the rate of inflation.

That is not a happy prescription. No one likes to see total income and output restrained below maximum. No one likes to put off increases in worthwhile Federal spending programs, or to forego the pleasures of a tax cut. No one likes to have credit less easily available, or to see the growth of business profits held back for a while. Most important, no one is happy with the prospect of unemployment averaging slightly higher than it otherwise would. But if we are to regain control over inflation, there is no other way. These costs, which are not negligible, must be met. There is no acceptable alternative, because the costs of continued rapid inflation are much higher.

Some people think there is an easier way in the form of controls of one sort or another. I cannot accept that. We and other countries have tried comprehensive, mandatory controls, and they just don't work -- short-term gains are sometimes realized, but only at the expense of long-term pains. And more benign versions of direct government intervention -- guidelines or social compacts -- suffer the same shortcomings. Generally, they don't provide any effective restraint on inflation, and where they do impact on individual price and wage decisions they do more harm than good. Thus, I conclude that the only choice is to operate our growing economy with a moderate margin of slack for an extended period of time.

The Present Situation

An effective policy to curb inflation is already underway. Our policies have already produced enough restraint to develop the necessary margin of slack in the economy, as is becoming clearer every week. The first crucial step in the anti-inflation fight is therefore behind us.

The restraint created thus far, however, has come almost entirely from the monetary side. The Federal Reserve has been bearing the burden of restrictive policies substantially by itself. Thus the second vital step is to redress this imbalance between monetary and fiscal policies by achieving greater control of the budget. I would argue that total restraint from both major policy tools need not be any tougher than has been the case over the past year -- perhaps slightly less, in fact -- but there is a compelling argument for changing the mix. It is vital that we ease pressures in the credit markets, so that interest rates can ease off and so that funds again flow to the beleagured housing industry.

The third and final step for policy will be to keep a moderate degree of economic slack in existence for some time to come. We must not be pressured into a new round of overheating. To achieve this goal we must be sure to have effective programs in place to cushion the impact of inflation where it strikes with disproportionate force -- programs such as direct aid to housing, low-income tax relief, extended unemployment benefits and an expanded public employment program. These programs are important for two reasons: First, they are important as a simple matter of compassion for the unlucky and the disadvantaged. Second, if we are to keep the slack in existence, we must be sure that its burden is shared equitably throughout society, so that this policy attains a broad and durable political acceptance. Otherwise the American people will opt for a new round of excessive economic policy stimulus -- i.e., more of what got us into this mess in the first place.

* * *

In conclusion, I can only express my hope that the American people will choose to take the unpleasant-tasting medicine of fiscal and monetary discipline. It is not an ideal solution and it is not an easy solution. None exists. But it is a better choice than another try at controls or than trying to live with double-digit inflation. Our economy will survive in any event, but I believe we will experience less economic difficulty if we follow the path of self-discipline.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR RELEASE AT 1:00 P.M., EST
MONDAY, OCTOBER 28, 1974

REMARKS BY
THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE INDEPENDENT PETROLEUM ASSOCIATION
DALLAS, TEXAS, OCTOBER 28, 1974

LADIES AND GENTLEMEN, IT IS A PRIVILEGE TO SPEAK BEFORE THIS ANNUAL CONVENTION OF THE INDEPENDENT PETROLEUM ASSOCIATION AND TO BRING YOU THE WARMEST GREETINGS OF THE PRESIDENT OF THE UNITED STATES.

I AM ALSO DELIGHTED THAT AFTER A TWO-YEAR FRIENDSHIP WITH YOUR ASSOCIATION, I FINALLY HAVE THE OPPORTUNITY TO MEET MANY OF YOUR MEMBERS FACE-TO-FACE. I THINK YOU KNOW THAT I AM ONE OF YOUR GREATEST ADMIRERS. TO ME, THE INDEPENDENT PETROLEUM PRODUCERS SYMBOLIZE THE VERY BEST OF THE FREE ENTERPRISE SPIRIT IN AMERICA. YOU ARE OUT ON THE FRONT LINES OF CAPITALISM -- TAKING HEAVY RISKS, FACING STEEP COMPETITION, AND PLACING BOTH YOUR MONEY AND YOUR CAREERS IN THE BALANCE.

WS-143

TOO MANY AMERICANS HAVE FORGOTTEN THAT THE FREE ENTERPRISE SYSTEM IS THE ENGINE THAT PULLS THE TRAIN OF AMERICAN BUSINESS AND INDUSTRY, THE TRAIN THAT INCLUDES AS CARGO THE JOBS OF TWO-THIRDS OF THE WORKING MEN AND WOMEN IN THIS NATION. AS CONVENIENCE AND SECURITY HAVE REPLACED COMPETITION AND SELF RELIANCE AS THE GOALS FOR MANY OF OUR COUNTRYMEN, THE IDEA OF FREE ENTERPRISE SEEMS TO HAVE LOST ITS SHEEN. I KNOW, HOWEVER, THAT THOSE OF YOU WHO ARE INDEPENDENT PRODUCERS HAVE NEVER LOST SIGHT OF THE IDEALS THAT HAVE TRANSFORMED THIS COUNTRY INTO MAN'S "LAST BEST HOPE", AND I BELIEVE THAT YOU REPRESENT ONE OF OUR GREATEST HOPES FOR THE FUTURE.

MOREOVER, NO ONE CAN FAIL TO APPRECIATE THE CONTRIBUTION YOU MAKE TO AMERICA'S CRITICAL NEED FOR MORE ENERGY. THE 10,000 INDEPENDENT PRODUCERS NOW DRILL MORE THAN 80 PERCENT OF ALL EXPLORATORY WELLS AND PRODUCE MORE THAN A THIRD OF THE TOTAL CRUDE OIL OUTPUT IN THE UNITED STATES. YOUR ROLE HAS BEEN AN IMPORTANT ONE, AND TODAY I WANT TO TELL YOU WHY IT WILL BECOME EVEN MORE IMPORTANT IN THE YEARS AHEAD.

U.S. ENERGY POLICY: FUNDAMENTAL CHANGES

THE ENERGY POLICY OF THE UNITED STATES IS NOW IN THE MIDST OF A SWEEPING CHANGE IN DIRECTION. FOR MANY YEARS, THAT POLICY WAS BASED UPON THE ASSUMPTION THAT WE WOULD ALWAYS BE ABLE TO OBTAIN ALL OF THE ENERGY WE WANTED AT

BARGAIN-BASEMENT RATES. FOREIGN OIL WAS INEXPENSIVE AND SEEMED LIMITLESS IN QUANTITY. IT THUS APPEARED TO BE GOOD BUSINESS AND SOUND DIPLOMACY TO INCREASE OIL IMPORTS, EVEN AT THE EXPENSE OF MANY OF THE INDEPENDENT PRODUCERS HERE AT HOME.

AS WE HAVE LEARNED TO OUR REGRET, HOWEVER, OUR POLICY PROVED TO BE A DOUBLE-EDGED SWORD. IT LED DIRECTLY TO A GROWING DEPENDENCE UPON OTHER NATIONS AND A DECLINE IN EXPLORATION AND PRODUCTION WITHIN THE UNITED STATES. BY THE TIME OF OUR EMBARGO LAST YEAR, OUR DEMAND FOR OIL WAS GROWING AT A RATE OF ABOUT 4 OR 5 PERCENT A YEAR AND MOST OF THAT NEW DEMAND WAS BEING MET BY IMPORTS. WE HAD ALREADY BECOME DEPENDENT UPON FOREIGN OIL FOR OVER ONE-THIRD OF OUR PETROLEUM NEEDS. IF THAT TREND HAD NOT BEEN BROKEN BY THE EMBARGO, WE COULD EASILY HAVE BECOME RELIANT UPON OTHER NATIONS FOR AS MUCH AS 50 PERCENT OF OUR OIL NEEDS WITHIN JUST A FEW YEARS.

THE LEGACY OF OUR ENERGY POLICY IS NOW CLEAR FOR ALL TO SEE: WE ALLOWED OUR DOMESTIC ENERGY BASE TO ERODE SO BADLY THAT WE BECAME HIGHLY VULNERABLE TO FOREIGN EXTORTION. FORTUNATELY, WE REMAINED MORE SELF-SUFFICIENT THAN MANY OF OUR INDUSTRIALIZED FRIENDS, BUT WE KNOW NOW THAT WE SHOULD NEVER HAVE ALLOWED OUR OWN DEMANDS FOR ENERGY TO OUTSTRIP OUR OWN SUPPLIES AS FAR AS THEY DID. IF THERE IS ANY GOOD

THAT HAS COME FROM THE OIL CARTEL, IT IS CERTAINLY THE FACT THAT IT AWAKENED US TO THE DANGER BEFORE IT WAS TOO LATE.

NOW THAT THE FOREIGN OIL CARTEL HAS SOLIDIFIED ITS POSITION, IT IS IMPORTANT TO RECOGNIZE JUST HOW LARGE A PRICE WE ARE PAYING FOR OUR MISTAKES. OVER THE PAST YEAR, THE WORLD PRICE OF OIL HAS QUADRUPLED, AND IN 1974 THE UNITED STATES WILL PAY OUT $25 BILLION FOR FOREIGN OIL. AS A RESULT, DESPITE A STRONG GROWTH IN OUR OWN EXPORTS, WE ARE FACING A BALANCE-OF-PAYMENTS DEFICIT THIS YEAR OF SOME $5 BILLION. MORE IMPORTANTLY, WE ARE NOW CAUGHT IN THE WORST PEACETIME INFLATION IN OUR HISTORY -- INFLATION THAT HAS BEEN SIGNIFICANTLY FUELED BY THE HIGHER COST OF ENERGY.

AS FOR THE NATIONS OF THE OPEC BLOC, WE ESTIMATE THAT THEY RECEIVED $15 BILLION FROM OIL TRADE IN 1972, $25 BILLION IN 1973, AND NOW WITH SKYROCKETING PRICES, THEIR EARNINGS ARE LIKELY TO REACH THE $100 BILLION MARK IN 1974. THEIR TRADE SURPLUS FOR THE CURRENT YEAR WILL PROBABLY BE IN EXCESS OF $60 BILLION, AND BY 1980, IF PRESENT TRENDS CONTINUE, THEIR TOTAL ACCUMULATIONS COULD EXCEED $500 BILLION. IMBALANCES OF THIS MAGNITUDE CANNOT CONTINUE. THEY ARE NEITHER ECONOMICALLY NOR POLITICALLY TOLERABLE.

THERE ARE SOME WHO BELIEVE THAT THE ARABS NOW HAVE THE UNITED STATES IN A PERILOUS, UNBREAKABLE HAMMERLOCK. I

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TOTALLY DISAGREE, AND I DO SO ON THE VERY SOLID GROUNDS OF ECONOMIC REALISM AND AMERICAN TRADITION. A NATION THAT CAN TAME THE WILDERNESS, THAT HAS THE MOST DYNAMIC FREE MARKETPLACE IN THE HISTORY OF MAN, THAT CAN LIFT THE STANDARD OF LIVING TO HEIGHTS HITHERTO UNKNOWN, AND CAN THEN PLACE MEN ON THE MOON -- THAT NATION, IF IT ALLOWS FREE ENTERPRISE FULL FREEDOM, IS NOT GOING TO BE COWED BY THE SUDDEN THREAT OF BLACKMAIL.

IN MY MEETINGS WITH THE ARAB LEADERS, I HAVE TRIED TO IMPRESS UPON THEM THAT THEIR OIL POLICIES ARE NOT ONLY BAD POLITICS BUT BAD ECONOMICS. ONE DAY THEY MAY FIND THEIR OIL MARKET TENDING SHARPLY DOWNWARD -- AND ONCE IT IS GONE, EVEN LOWER PRICES WILL NOT BRING IT BACK.

THEY HAVE NOT YET BEEN PERSUADED, BUT I THINK THEY ARE NOW BEGINNING TO RECOGNIZE THE ECONOMIC REALITY THAT THEIR POLICIES ARE EXERTING ENORMOUS PRESSURES ON THE UNITED STATES AND OTHER CONSUMER COUNTRIES TO BECOME MORE SELF-SUFFICIENT. SINCE 1972, SIGNIFICANT DISCOVERIES OF OIL HAVE BEEN MADE IN 26 AREAS OF THE WORLD -- OUTSIDE THE OPEC BLOC -- AND COUNTRIES SUCH AS BRITAIN ARE NOW WORKING TO CONVERT THESE DEPOSITS INTO MAJOR ENERGY SOURCES.

HERE IN THE UNITED STATES, WE ARE EVEN MORE AMBITIOUS: WE ARE SEEKING AN IMMEDIATE REDUCTION IN OUR FOREIGN IMPORTS, AND OVER THE LONGER HAUL, WE ARE SEEKING A CAPACITY FOR FULL SELF-SUFFICIENCY. THE GENERAL OUTLINES FOR BOTH ENDEAVORS WERE SET FORTH BY PRESIDENT FORD TWO WEEKS AGO WHEN HE WENT BEFORE THE CONGRESS TO PROPOSE A 31-POINT, ANTI-INFLATION PROGRAM -- A PROGRAM, INCIDENTALLY, THAT IS MUCH TOUGHER THAN MANY HAVE RECOGNIZED.

AS YOU KNOW, THE PRESIDENT HAS SET A GOAL OF REDUCING OUR CURRENT IMPORT LEVELS OF OIL BY ONE MILLION BARRELS A DAY BY THE END OF 1975. THAT GOAL MAY BE DIFFICULT, BUT IT IS NOT UNREALISTIC -- AND WE ARE FULLY CAPABLE OF ACHIEVING IT. FOR ONE THING, SIGNIFICANT SAVINGS CAN BE REALIZED THROUGH CUTBACKS ON WASTE AND UNNECESSARY USES OF ENERGY. AS WE LEARNED LAST WINTER, VOLUNTARY CONSERVATION WORKS AND WORKS INCREDIBLY WELL. IT MUST NOW BE A VITAL PART OF OUR RENEWED ENERGY EFFORT. BUT WE WILL NOT RELY UPON CONSERVATION ALONE OVER THE COMING YEAR: WE MUST ALSO BEGIN TO MAKE GREATER USE OF OUR OWN DOMESTIC RESOURCES, PARTICULARLY COAL AND OIL.

THE PRESIDENT IS PRESSING FOR LEGISLATION THAT WOULD ALLOW MAXIMUM PRODUCTION OF THE OIL DEPOSITS IN THE NAVAL PETROLEUM RESERVES IN CALIFORNIA AND ALASKA. HE IS ALSO ASKING FOR IMMEDIATE ACTION ON THE BILL TO DEREGULATE THE PRICE OF NEWLY DEVELOPED NATURAL GAS. IN ADDITION, HE IS

REQUESTING LEGISLATION THAT WOULD REQUIRE ELECTRIC UTILITIES TO CONVERT FROM OIL TO COAL. HIS EVENTUAL GOAL IS TO ELIMINATE OIL AND NATURAL GAS FIRED PLANTS FROM THE NATION'S BASELOADED ELECTRIC CAPACITY IN THOSE PLANTS WHICH CAN CONVERT TO COAL OR NUCLEAR POWER WITHOUT ENDANGERING PUBLIC HEALTH. WITHIN 90 DAYS, THE FEDERAL ENERGY ADMINISTRATION IS TO CALL A MEETING WITH REPRESENTATIVES OF INDUSTRY, THE STATE REGULATORY COMMISSIONS, AND FEDERAL AGENCIES TO ESTABLISH A SCHEDULE FOR CONVERSION.

PROJECT INDEPENDENCE: HOPE FOR THE FUTURE

OVER THE LONG RUN, WE REMAIN DETERMINED TO MOVE TOWARD SELF-SUFFICIENCY FOR THE UNITED STATES THROUGH PROJECT INDEPENDENCE. SOME SKEPTICS ASK WHETHER PROJECT INDEPENDENCE HAS RUN OUT OF STEAM: IT HASN'T -- BUT WE SOMETIMES WONDER IF CONGRESS HAS. WHEN IT COMES TO PASSING ENERGY LEGISLATION IN WASHINGTON, WE STILL SEEM TO BE IN THE AGE OF THE HORSE AND BUGGY.

SOME OF THE MOST IMPORTANT ENERGY BILLS IN THE COUNTRY HAVE LAIN DORMANT ON CAPITAL HILL FOR AS LONG AS THREE YEARS. AS OF TODAY, THERE ARE OVER 15 CRITICAL PIECES OF CRITICAL ENERGY LEGISLATION THAT ARE CAUGHT IN THE LOGJAM. OF THOSE, NONE IS MORE IMPORTANT THAN THE BILL TO DEREGULATE THE PRICE OF NEWLY DEVELOPED NATURAL GAS. I KNOW THAT YOUR ASSOCIATION SUPPORTS THIS MEASURE AS WELL AS OTHERS, AND I URGE YOU TO

RENEW YOUR EFFORTS TO OBTAIN THEIR PASSAGE.

PROJECT INDEPENDENCE SHOULD HAVE A DIRECT AND VERY IMPORTANT IMPACT UPON EACH OF YOU. IF CORRECTLY DESIGNED AND IMPLEMENTED, WE BELIEVE IT CAN PROVIDE A CONTEXT IN WHICH MARKET-ORIENTED -- AND MUCH MORE EFFECTIVE -- ENERGY POLICIES ARE POSSIBLE. BY REMOVING THE PRICE BARRIERS WHICH HELD DOWN ENERGY PRICES IN THE UNITED STATES TO ARTIFICIAL LEVELS, WE CAN EXPAND PRODUCTION AND ENCOURAGE FURTHER CONSERVATION. MOREOVER, MODIFIED GOVERNMENT REGULATIONS AND POLICIES SHOULD LEAD TO ENORMOUS GAINS IN EFFICIENCY.

AS A LIFETIME ADVOCATE OF COMPETITIVE ENTERPRISE, I AM CONVINCED THAT EACH OF YOU COULD DO A BETTER JOB IF YOU WERE FREE OF CONTROLS. FOR TOO MANY YEARS THE GOVERNMENT HAS POSED MAJOR OBSTACLES TO EFFICIENT MARKET ALLOCATION IN ENERGY. WE REGULATE THE PRICE AND DISTRIBUTION OF NATURAL GAS; WE MANIPULATE THE PRICING AND DISTRIBUTION SYSTEM IN OIL; WE REQUIRE LENGTHY AND CUMBERSOME PROCESSES FOR OBTAINING LICENSES AND RATE APPROVALS; AND WE IMPOSE ENVIRONMENTAL RESTRAINTS OF QUESTIONABLE VALIDITY UPON BOTH THE PRODUCTION AND COMBUSTION OF FOSSIL FUEL.

I KNOW THAT I CAN SPEAK FOR PRESIDENT FORD IN PLEDGING TO YOU THAT WE WILL WORK TOWARD CREATING GREATER FREEDOM IN THE ENERGY MARKETPLACE. LET ME TURN DIRECTLY TO FOUR ISSUES

OF ACUTE CONCERN TO YOU IN THIS RESPECT: THE DEPLETION ALLOWANCE, SECONDARY AND TERTIARY PRODUCTION, LEASING ON FEDERAL LANDS, AND THE DEREGULATION OF NATURAL GAS.

THE DEPLETION ALLOWANCE

DURING THE PAST TWO WEEKS, THERE HAVE BEEN SEVERAL CONFLICTING REPORTS REGARDING THE ADMINISTRATION'S POSITION ON THE ELIMINATION OF THE DOMESTIC DEPLETION ALLOWANCE. I KNOW THAT YOU FIRMLY SUPPORT THE CONTINUATION OF THAT ALLOWANCE, AND I WANT TO BE STRAIGHTFORWARD WITH YOU.

OUR BASIC POSITION NOW IS THE SAME AS IN THE PAST: WE FAVOR THE REMOVAL OF THE <u>FOREIGN</u> DEPLETION ALLOWANCE, AND WE OPPOSE THE REMOVAL OF THE <u>DOMESTIC</u> DEPLETION ALLOWANCE. HOWEVER -- AND LET ME STRESS THIS -- A PROVISION TO ELIMINATE THE DOMESTIC DEPLETION ALLOWANCE IS CONTAINED IN THE TAX REFORM ACT OF 1974 THAT IS NOW IN THE HOUSE WAYS AND MEANS COMMITTEE. THAT BILL HAS MANY OTHER PROVISIONS THAT WE BELIEVE WOULD MAKE SIGNIFICANT IMPROVEMENTS IN THE TAX STRUCTURE -- IMPROVEMENTS THAT WOULD BENEFIT EVERY AMERICAN -- SO THAT IF THE BILL COMES BEFORE THE PRESIDENT IN ITS PRESENT FORM, HE HAS PROMISED THAT HE WILL SIGN IT.

LET ME ALSO STRESS THE PRESIDENT IS COMMITTED TO THE POSITION THAT BOTH OIL AND GAS SHOULD EVENTUALLY BE SOLD ON A FREE MARKET BASIS. I CANNOT GIVE YOU A TARGET DATE FOR DECONTROLLING DOMESTIC OIL PRICES. AS YOU KNOW, THAT DECISION MUST BE MADE WITHIN THE CONTEXT OF AN INFLATIONARY ECONOMY -- AND AS OF TODAY, THE OVERWHELMING MAJORITY OF OUR PEOPLE AGREE THAT INFLATION IS OUR NUMBER ONE DOMESTIC PROBLEM.

DECONTROL OF SECONDARY AND TERTIARY PRODUCTION

A RELATED ISSUE OF CONCERN TO ALL OIL PRODUCERS IS SECONDARY AND TERTIARY PRODUCTION. IT IS ESTIMATED THAT THERE ARE SUBSTANTIAL RESERVES OF OIL NOW UNDERGROUND THAT COULD BE RECOVERED IF GREATER USE WERE MADE OF SECONDARY AND TERTIARY PRODUCTION METHODS. EXISTING PRICE CONTROLS, HOWEVER, TEND TO DISCOURAGE THESE FORMS OF PRODUCTION.

IN HIS RECENT SPEECH TO THE CONGRESS, PRESIDENT FORD MADE IT CLEAR THAT HE WILL ADJUST THESE CONTROLS, MAXIMIZING INCENTIVES TO USE SUCH PRODUCTION METHODS, SECRETARY MORTON AND THE ENERGY RESOURCES COUNCIL ARE CURRENTLY DEFINING THE GUIDELINES WHICH WE WILL USE TO IMPLEMENT PRICE DECONTROL FOR THIS PURPOSE. WE SPECIFICALLY ENVISION THIS POLICY AS AN AID FOR ALLOWING

SMALL, HIGH-COST PRODUCERS TO FINANCE MORE SOPHISTICATED METHODS OF RECOVERY TECHNIQUES. IN ADDITION, THIS PROVISION MAY MAKE IT MORE READILY POSSIBLE TO UNITIZE PRODUCTION FROM SEVERAL OLD FIELDS THROUGH THE UNITED STATES. MOREOVER, THESE ADJUSTMENTS WILL ALLOW US TO MOVE AHEAD WITH A MORE ORDERLY PHASE-OUT OF THE TWO-TIER PRICE CONTROL SYSTEM.

ACCELERATION OF OIL LEASING ON FEDERAL LANDS

STILL ANOTHER AREA THAT HOLDS OUT GREAT HOPE FOR US IS THE OUTER CONTINENTAL SHELF, A REGION THAT MAY BE RICH IN OIL DEPOSITS. THE ADMINISTRATION'S GOAL IS TO SHARPLY ACCELERATE FEDERAL LEASING OF THOSE LANDS SO THAT BY 1975 WE WILL BE LEASING 20 MILLION ACRES A YEAR -- FIVE TIMES AS MUCH AS DURING 1974.

IT IS ALSO THE ADMINISTRATION'S POLICY TO ENCOURAGE PARTICIPATION BY THE INDEPENDENTS IN THIS FRONTIER AREA LEASING. IN THE PAST, IT HAS OFTEN BEEN DIFFICULT FOR THE SMALL PRODUCER TO COMPETE WITH LARGE OIL COMPANIES FOR THE MOST LUCRATIVE FEDERAL LEASES BECAUSE BONUS BIDS WERE EXTREMELY HIGH AND LANDS BEING LEASED WERE LIMITED IN AMOUNT. TO COMBAT THIS PROBLEM, WE RECENTLY EXPERIMENTED WITH A ROYALTY BONUS BID SYSTEM WHICH GREATLY REDUCES THE FRONT-END MONEY THAT A PRODUCER MUST PUT UP FOR HIS LEASE. OF THE TEN EXPERIMENTAL LEASES OF THIS TYPE, MOST OF THE LAND LEASED WAS AWARDED TO INDEPENDENTS. INNOVATIVE SCHEMES OF THIS SORT APPEAR TO

HOLD OUT CONSIDERABLE PROMISE FOR THE INDEPENDENT PRODUCER AND SHOULD ENCOURAGE GREATER COMPETITION AS WE ACCELERATE THE DEVELOPMENT OF OUR FEDERAL LANDS.

Deregulating the Price of Natural Gas

A FOURTH MEASURE THAT I WANT TO ADDRESS THIS MORNING IS THE BILL TO DEREGULATE THE PRICE OF NEW NATURAL GAS. IF THERE IS A CLASSIC EXAMPLE OF THE MISCHIEF THAT CAN BE DONE BY FEDERAL INTERVENTION IN THE PRIVATE MARKETPLACE, IT IS CERTAINLY THE CASE OF NATURAL GAS. FOR MANY YEARS, DESPITE REPEATED WARNINGS BY EXPERTS, THE FEDERAL POWER COMMISSION HAS CONTROLLED THE WELLHEAD PRICE OF NATURAL GAS AT AN ABNORMALLY LOW LEVEL AND HAS THUS REDUCED THE INCENTIVES FOR THE DEVELOPMENT OF NEW DOMESTIC SUPPLIES. IN 1957, NEW DISCOVERIES OF NATURAL GAS TOTALLED APPROXIMATELY 22 TRILLION CUBIC FEET. BY 1972, NEW DISCOVERIES WERE LESS THAN ONE-SEVENTH OF THAT LEVEL. IN 1955, THE UNITED STATES HAD A 22.5 YEARS OF GAS RESERVES. BY 1972, AS THE EXPERTS WARNED, GAS RESERVES HAD FALLEN TO 10.7 YEARS. IN FACT, WE ARE NOW IMPORTING FOREIGN LIQUIFIED GAS AT PRICES THREE TIMES THOSE OF CONTROLLED DOMESTIC PRICES, AND WE ARE FACING CURTAILMENTS AGAIN THIS WINTER FOR NATURAL GAS CONSUMERS.

THE ONLY REALISTIC SOLUTION TO THE SUPPLY PROGRAM LIES IN THE DEREGULATION OF NEW GAS, A MOVE WHICH WOULD DEFINITELY STIMULATE PRODUCTION. NATURAL GAS, AS YOU

KNOW, IS AN INVALUABLE SOURCE OF CLEAN, ENVIRONMENTALLY SAFE ENERGY. IN OUR VIEW, IT IS THUS ESSENTIAL THAT THE CONGRESS MOVE FORWARD AS QUICKLY AS POSSIBLE IN ACTING UPON THE NATURAL GAS LEGISLATION.

MEETING NATIONAL NEEDS

EARLIER TODAY, I SAID THAT QUESTIONS OF ENERGY POLICY MUST BE SETTLED WITHIN THE BROADER CONTEXT OF NATIONAL NEEDS AND CONCERNS. FREQUENTLY THERE WILL BE CONFLICTS BETWEEN THE INTERESTS OF ONE GROUP AND THOSE OF ANOTHER. INSOFAR AS POSSIBLE, IT IS OUR BELIEF THAT CONFLICTS OF AN ECONOMIC NATURE SHOULD BE WORKED OUT IN A FREE MARKETPLACE. BUT THESE ARE DIFFICULT TIMES AND THERE WILL BE OCCASIONS WHEN THE GOVERNMENT IN WASHINGTON MUST MAKE HARD CHOICES. IN THAT PROCESS, I CAN ONLY PLEDGE TO YOU THAT WE WILL BE AS FAIRMINDED AND AS HONEST WITH YOU AS POSSIBLE.

ONE NATIONAL PROBLEM THAT IS OF PARTICULAR CONCERN TO ME TODAY, ESPECIALLY IN COMING TO TEXAS, IS THE HEALTH OF THE CATTLE INDUSTRY. LET ME PURSUE THAT FOR A MOMENT. BOTH FEEDERS AND RANCHERS ARE UNDER HEAVY FINANCIAL PRESSURE AND MANY ARE FACED WITH THE THREAT OF BEING DRIVEN OUT OF BUSINESS. BECAUSE OF BAD WEATHER AND POOR CROPS, THE COST OF PRODUCTION HAS SKYROCKETED. BUT CROPS AND WEATHER DO NOT BEAR ALL OF THE BLAME: THE GOVERNMENT WHICH IMPOSED A PRICE FREEZE IN 1973 MUST ALSO ACCEPT ITS SHARE. WE RECOGNIZE THE

NEED TO CORRECT WHAT WAS FOOLISHLY DONE EARLIER -- AND THROUGH THE EMERGENCY LIVESTOCK CREDIT ACT OF 1974, ENACTED LAST JULY, WE HOPE THAT SOME ASSISTANCE WAS PROVIDED FOR THE INDUSTRY.

WE ARE NOW REVIEWING OTHER POLICIES AFFECTING THE LIVESTOCK INDUSTRY TO SEE WHETHER ADDITIONAL CHANGES MIGHT BE MADE TO ACHIEVE OUR LONG-TERM GOAL: A HEALTHY AND GROWING INDUSTRY THAT IS FREE FROM UNDUE GOVERNMENTAL INTERFERENCE. ALL OF US -- IN GOVERNMENT, IN THE INDUSTRY, AND IN THE BANKING COMMUNITY -- WHERE I'M SURE THERE IS FULL RECOGNITION OF THE NEED FOR REASONABLE AND RESPONSIBLE LIVESTOCK LENDING POLICIES DURING THIS DIFFICULT TIME -- ALL OF US WILL HAVE TO WORK TOGETHER TOWARD THIS END. I AM CONFIDENT THAT THE INDUSTRY WILL SURMOUNT ITS TEMPORARY PROBLEMS AND GO ON TO A MORE PROSPEROUS FUTURE.

ANOTHER CONCERN THIS MORNING -- AND ONE THAT HAS STIRRED UP A CONTROVERSY -- IS THE PRESIDENT'S NEW TAX PROGRAM. THIS IS A BROAD-GAUGED EFFORT TO ALLEVIATE THE WORST EFFECTS OF THE CURRENT ECONOMIC SQUEEZE AND TO PAY FOR SUCH ASSISTANCE EFFORTS THROUGH NEW TAXES. THOSE HARDEST HIT -- INDIVIDUALS IN LOWER-INCOME BRACKETS -- WOULD BE HELPED THROUGH TAX RELIEF AND AN EXPANDED PROGRAM OF PUBLIC EMPLOYMENT AND JOBLESS BENEFITS, WHILE THE BUSINESS COMMUNITY WOULD BE PROVIDED ADDITIONAL INCENTIVES FOR INVESTMENT. BOTH OF THESE EFFORTS,

PARTICULARLY THE EFFORT TO HELP LOWER-INCOME AMERICANS, ARE INTENDED TO SERVE THE BROAD PURPOSES OF BEING FAIR AND ADVANCING THE NATION'S GENERAL WELFARE.

BUT WE SHOULD CLEARLY RECOGNIZE THAT EACH OF THESE MEASURES ALSO COSTS MONEY, AND IF WE ARE SERIOUS ABOUT FISCAL DISCIPLINE, WE MUST RAISE NEW TAXES. IT'S TIME TO BE HONEST WITH THE AMERICAN PEOPLE, TO FACE UP TO THE FACT THAT IF WE VOTE FOR EXPENSIVE NEW PROGRAMS, WE MUST LEARN TO PAY FOR THEM, EITHER IN REGULAR TAXES OR IN THE FORM OF THE CRUELEST TAX OF THEM ALL -- INFLATION.

THE PRESIDENT HAS CHOSEN TO BELL THE CAT BY CALLING FOR A 5 PERCENT SURTAX. MANY CONGRESSMEN HAVE ALREADY WRITTEN OFF THE SURTAX BECAUSE THEY THINK IT IS UNPOPULAR, BUT I SUBMIT THAT THE SURTAX IS A SUPREME TEST OF OUR WILL TO FIGHT INFLATION.

WHEN THE CONGRESS RETURNS TO WASHINGTON NEXT MONTH, I AM SURE YOU WILL SEE A GREATER RUSH TO PASS PROGRAMS THAT COST MONEY THAN TO PROGRAMS THAT RAISE MONEY. TO GO DOWN THAT PATH WOULD BE AN EXTREMELY SERIOUS MISTAKE, FOR THE BLOATED FEDERAL BUDGET IS ONE OF THE PRIME CULPRITS BEHIND THE INFLATION THAT IS RANGING IN THIS COUNTRY TODAY. IF THERE IS ANYTHING WHICH IS CLEAR TODAY, IT IS THE FACT THAT WE ARE ALREADY PAYING FOR MORE GOVERNMENT THAN WE NEED, MORE GOVERNMENT THAN MOST PEOPLE WANT, AND CERTAINLY MORE GOVERNMENT

THAN WE ARE WILLING TO PAY FOR.

IT BECOMES CLEARER TO ME EACH DAY THAT THE OVERRIDING QUESTION IS NOT WHETHER WE KNOW HOW TO CURE INFLATION -- WE DO -- BUT WHETHER WE CAN SUMMON UP THE CONFIDENCE AND THE COURAGE TO GET IT DONE.

THERE IS A CERTAIN SICKNESS EATING AWAY AT THE AMERICAN SPIRIT. AS WE OPEN THE PAPER EACH DAY, WE ARE CONFRONTED WITH THE PROPHETS OF DOOM AND GLOOM WHO TELL US THAT OUR DEMOCRACY IS HEADED FOR THE SCRAP HEAP. OUR MORE FASHIONABLE OPINION LEADERS IN POLITICS, IN THE PRESS, AND IN OTHER WALKS OF LIFE HAVE BECOME TOO QUICK TO EXPECT THE WORST AND TOO IMPATIENT TO WORK FOR THE BEST.

I SAY TO YOU THAT IT IS TIME TO STOP TEARING DOWN AMERICA AND START BUILDING HER UP AGAIN. AMERICA IS STILL INCREDIBLY STRONG, POWERED BY THE LARGEST AND MOST DYNAMIC FREE MARKETPLACE IN THE WORLD. WE MAY HAVE GREAT WEAKNESSES, BUT WE ALSO HAVE GREAT STRENGTHS. IN FIGHTING INFLATION, LET US BEGIN BUILDING ON THOSE STRENGTHS ONCE AGAIN AND BRING AN END TO THIS CEASELESS HARPING ON WHAT'S WRONG WITH AMERICA.

BY PRESSING FOR A MASSIVE NEW ENERGY PROGRAM, BY CALLING FOR NEW TAXES, BY ASKING FOR NEW MEASURES TO SPUR INVESTMENT AND TO HELP THE UNEMPLOYED, AND BY PUSHING FOR MANY OTHER MEASURES THAT ADDRESS OUR ECONOMIC TROUBLES, PRESIDENT

FORD HAS PRESENTED A STERN TEST TO THE CONGRESS. IN FACT, THE PRESIDENT IS CALLING FOR A NEW KIND OF POLITICAL COURAGE IN THE UNITED STATES, AND ONLY IF WE GET IT WILL WE HAVE A FIGHTING CHANCE AGAINST INFLATION.

I LOOK FORWARD TO MEMBERS OF CONGRESS RETURNING TO WASHINGTON AFTER THE ELECTIONS AND TO THE OPPORTUNITY TO WORK IN PARTNERSHIP WITH THEM IN PASSING THE LEGISLATION THAT IS CRITICAL TO OUR ECONOMY. THE HOUR OF ACTION IS UPON US, AND ALL OF US -- THE EXECUTIVE, THE CONGRESS, AND THE AMERICAN PEOPLE -- MUST NOW PULL TOGETHER TO GUIDE OUR NATION SAFELY THROUGH THIS ECONOMIC STORM.

AS INDEPENDENT PETROLEUM PRODUCERS, YOU HAVE A VITAL ROLE TO PLAY IN THIS PROCESS. I AM CONFIDENT THAT WE CAN COUNT ON YOU.

THANK YOU.

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SECRETARY SIMON

NATIONAL PRESS CLUB LUNCHEON

Q & A

Washington, DC

October 31, 1974

DEPARTMENT OF THE TREASURY

KEN SCHEIBEL: We will go to the questions now and start off with an easy one. Why should a non-economist be able to run the economy?

SECRETARY OF THE TREASURY WILLIAM SIMON: Well, I guess you have to look back -- I guess some of the things that I could say in response to that would perhaps be considered immodest, but I will attempt to answer that without being immodest.

One can look back at the role of the Secretary of the Treasury, the chief financial officer, and on most occasions the chief economic officer of the United States. The great majorities of Secretaries of the Treasury come from my background, which is banking. I've been an investment banker for 22 years. I have worked with many economists in the private world and in the world of banking.

It isn't that we don't have economists in government, you know. We have a very large staff of economists, very competent economists, outstanding economists, in the Treasury Department. We have a Council of Economic Advisers, whose chairman is the direct adviser to the President on economic affairs. What we attempt to do is get a well-rounded team of people who approach the problem, perhaps from different vantage points, and therefore we're not accused of having tunnel visions. And we think that with the variety of people with varied backgrounds and experience that this is the correct way to approach it. At least that has traditionally been the way in the Federal Government to approach this problem.

We have had in the history of the Treasury Department -- and people are often surprised when I ask this question. I ask how many economists have been Secretary of the Treasury. Well, only one, George Shultz, who was a very fine Secretary of the Treasury.

SCHEIBEL: Mr. Secretary, you are reportedly one of the key Administration officials who disfavored Sawhill. Why did you feel he wouldn't be a good member of the team?

SECRETARY SIMON: You know, I talk sometimes, and I don't like to be disrespectful and critical because I always find that you, in the final analysis, most times get more with honey than with the other variety in dealing with people. And I have always had a good relation, I believe, with the press, and very often I see them go off half-cocked, and that's all right. Everybody makes mistakes. And I would say that this is one

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of those areas where some people went off half-cocked.

John Sawhill and I have worked together very closely in the two years I've been in government. He was my deputy at the Federal Energy Administration, and I recommended him very strongly to President Nixon to serve as my replacement. This recommendation was obviously accepted. I moved over simultaneously as the Secretary of the Treasury to deal with another area of the problems that beset us today.

And the President put in place a new energy team, and in my role as Secretary of the Treasury and Chairman of the Economic Policy Board, it was not my function to be recommending personnel and favoring and disfavoring. I have extremely high regard for John Sawhill. He is a terrifically capable human being, and I certainly hope that he accepts another position in our government, because we need capable people like this in government.

SCHEIBEL: Two questions...

[Applause]

SCHEIBEL: Are we in a recession? If not, why not? Under what circumstances...

[Laughter]

SCHEIBEL: Under what circumstances of economic weakness might the emphasis of policy shift towards stimulus?

SECRETARY SIMON: If not, why not? You notice in all of my responses to the question of are we in a recession or aren't we in a recession -- and people are always concentrating on attempting to pick words of public officials and create conflict or differences of opinion.

I think the semantical argument of whether or not we're in a recession is unimportant. We have a body, the National Bureau of Economic Research, that is the officially accepted body who designates whether we are, are not, have been, or what have you in a recession. Thus far they have not made this determination. It very likely will be determined, in my judgment, to have been a recession.

The point of the matter is that we understand what the economic problems that we face in our country today. We're suffering from extremely high inflation rates. We're suffering from a rising unemployment rate and a very, very sluggish economy, on the one hand.

Now, if we were dealing with just the simple problem of recession or just the simple problem of inflation, a single-dimension economic problem, if you will, the President's program could be very straightforward. For

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the matter of the recession, he could stimulate the economy. And in a very few months you'd see very tangible results. If it were a matter of just purely the inflation that often accompanies the peak of a boom, it could be dealt with through taut fiscal and monetary policies, producing the same results.

Unfortunately right now, our problems are not of a single dimension; they're multi-dimensional. And our balanced program deals with the problem of the sluggishness in the economy. It puts the balanced approach [unintelligible] fiscal and monetary restraint, all the legislation that's required, the surtax to pay for those that bear the disproportionate burden, so that we can once again get the economy back on the proper track.

As I said in my speech, and didn't elaborate to that great an extent on the mystery, or lack of mystery, as to how we got here. You know, this reminds me terribly of the many occasions I had this past winter to explain the energy problem to the American people. There wasn't any mystery how we got in that problem, and there's no mystery how we got in this economic mess. There are fundamental causes and there are extra special factors. And the fundamental causes are excessive fiscal and monetary policies for at least the last decade, where we've seen federal spending -- the growth in federal spending has been in excess of 10% for the last decade. Now that's versus under 6% in the decade before that, when we had a reasonable rate of inflation. We've had budget deficits in the past 13 -- in the past 14 years. Now budget deficits are necessary during times of some economic slack, but unfortunately these deficits occurred during very high economic activity. Money supply grew at a rate in this past decade of 6% versus the 2 1/2% in the decade before. And then we have the very familiar quadrupling of oil prices, the bad weather that affected the crops and caused the explosion in prices, the much overlooked fact of the simultaneous boom that occurred in all industrial countries, creating tremendous demand for our industrially traded raw materials.

Now ordinarily, as these things pass -- special factors passed through an economy and had their effect of pushing prices up, when they finished and they worked their way through, as they ramified through the economy, the inflation rate would recede to what you and I might say are reasonable levels. But unfortunately, we're paying for the excesses of the past decade, and it is not going to recede to what you and I would call an acceptable rate of inflation, and it's going to be very stubborn. And that's why we say that this problem did not come upon us overnight and it is not going to disappear overnight, and it's going to require discipline.

And anybody who thinks that that isn't tough medicine in the United States of America, in this great democracy, isn't paying attention.

[Applause]

SCHEIBEL: Now that congressional leaders have publicly opposed the proposed 5% surtax, will the Administration present a new proposal, or pursue what appears to be a dead end?

SECRETARY SIMON: Well, it's all in the eyes of the beholder, this dead end that we have right now. You know, I think you people have been in Washington a good deal longer than I have, and I'd borrow one of your terms, that we're in the silly season right now, just before election, and nobody likes to -- nobody likes to go home and run on a platform of favoring higher taxes. The American people pay too much taxes, yes. And I certainly go along with that.

But on the other hand, we have to look at having an economic policy, recognizing that it's going to take time to cure our problem of inflation in our country. And we're going to have to have policies that while they have discipline over a sustained period of time, that they're moderate, but more importantly, that they're also humane, that they're humane in that they assist people who are inevitably going to bear the disproportionate share of our policies, of any disinflationary policy.

In other words, we have to pay for the additional spending, and it's about time we started to pay in this country for the additional spending instead of legislating these budget deficits year after year after year.

And I'd just like to ask the people, ask the American people: A 5% surtax for one year -- and you can look at the tax tables we've presented. They've all been published in the newspapers, where a person with an average family of two, making $20,000 a year, is going to pay an additional $42 in tax. Now, that is not too much discipline to exact.

And what's the alternative? Do we begin to tax just a little for one year, until our budget process can pick up the needed productivity and capacity increase that we're striving for through part of our proposals? Or do we end up with the cruelest tax of all and the most regressive tax of all? -- Inflation.

Well, I say that's a pretty simple choice. And let's not say that we're in a dead end or that the surcharge is dead, because we've just begun to fight.

[Applause]

SCHEIBEL: What's going to happen to the stock market?

[Laughter]

SECRETARY SIMON: One of my associates just yelled, "Don't touch it."

[Laughter]

SECRETARY SIMON: You know, there is no secret here either about behavior in stock markets and bond markets and interest rates. The stock market is not Wall Street. The stock market is the United States of America, and the prices on the stock market and the interest rates that are extant in our capital markets today reflect the confidence, or lack of confidence, on the part of every American in this country, what he demands in return for the money that he lends, a safe investment. And we've built in such inflationary expectations into the American people, through years of irresponsible policies, that we have eroded this confidence.

So, we not only have to bring down the real rate of inflation, but at the same time we have to work on the inflation psychology that has become ingrained, and convince the American people that they have a government that they can have confidence in, that is going to run their economy in a proper fashion and not in a political fashion.

You know, I think that in recent days we've seen a stock market that has done considerably better. And I hope, although it's too early to tell, that people are beginning to believe that we are dead serious, finally, about curing inflation, that we're going to put a program into place, and we are not, as we have so often in the past, cop-outing with these seemingly attractive short-run alternatives that will end us back in the soup again a year to a year and a half from now. If we fall prey to that type advice, you can look for a worse inflation rate in 1976, and we are not going to relax on this policy.

SCHEIBEL: The question is, Mr. Secretary: When will the Administration bite the bullet -- reduce all government expense 10%, insist that business and unions do the same? In other words, do like any family would do who's been living beyond their means and wanted to restore confidence and integrity.

SECRETARY SIMON: Well, you know since I became Secretary of the Treasury in the beginning of May, at that time I was a rather lonely voice as far as federal spending is concerned. I now have a fair amount of company.

I would be delighted to cut the budget just as far as anybody else would. Anybody who accuses us of too much fiscal restraint -- there again, it's a complex subject and people very often don't bother taking a look at the facts. We've talked a great deal about fiscal restraint; we haven't done anything yet.

Even if we cut back our budget this year from 305 billion to 300 billion, which we're going to, that still represents an increase of $32 billion, which is an 11% increase, over last year's federal expenditures. What we're attempting to do is what we know we can accomplish. I mean it's nifty to say "Reduce all government expenses 10%." I don't know whether you mean expenses, because if you're just talking about the pure massive bureaucracy 10%, you're not talking about that terribly much money. A good deal of our programs are of the legislative variety, and it's going to take legislation to begin to cut back on them.

We are one-third of the time through this fiscal year. So we

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think realistically to move toward the balanced budget during this fiscal year, to cut five-to-six billion dollars is a realistic program. It removes the United States Government, to that extent, from our encroachment on the capital markets, and thereby it gives a very positive effect to reduction in interest rates, and then we'll move toward the balanced budget as we go through our budgetary process next year. And we think that this is the practical way to approach it.

SCHEIBEL: Why are the oil-consuming countries not forming a monopoly to offset the exorbitant demands of the monopoly formed by the OPEC countries?

SECRETARY SIMON: I think he said why they're not forming a monopsony. And that's all right. We can form a monopsony or a monopoly. We do have a monopoly of consumer countries and they have a monopoly of producer countries. And it boils down to the fact that they have 70% of the oil in this world, and we have to consume, depending on the country, various percentages of this oil.

We've all seen what the economic impact is in an economy just by the slight cutback in the embargo last year of 2 1/2-to-3 million barrels a day.

There are economic considerations; there are political considerations. The Arabs for a time, and I stress, for a time can get away with this extortion. But the time, and it's beginning to become apparent to everybody what I've said for some time -- and I have never put a price on it. It's just newspapermen who love to quote me putting a time on it. It's not whether oil prices are going to come down or not; it is when they're coming down. And they're coming down for a combination of political as well as economic matters.

All one has to do is go look at the 26 major discoveries outside of the OPEC nations in oil, the activity that's going on in all of the countries in the world in the area of alternate sources. And if we don't begin in this country -- and I've been down here now two years, and for almost all these two years we've had some very simple legislation to deal with this, in the strip-mining area, in the deregulation of natural gas, and all of the energy bills that we've got on the Hill that still lay there dormant.

And people say, "Deregulation of natural gas. You're fighting it with the prices." What we want is deregulation of new natural gas that will bring on additional supply in this country. Additional supply is the only thing that's ever going to bring the price down.

What's the alternative? The alternative is to pay the blackmail that's being charged us by the other countries. And we're importing at three to four times the price in the LNG area today what it would require here in this country.

Our policies have always been for the short-run, attractive expedient, and if there are two areas that have been giving us the most trouble in the last two years, that reflect extraordinarily irresponsible government policies, it's the area of food and fuel. And it's about time we did something that looked for the long-term, long-run best interest of the American people, and that's the program that we have in place right now.

[Applause]

SCHEIBEL: I wonder how it happens. There's a couple political questions here, Mr. Secretary. If you were running for Congress in Maine today, would you advocate a sugar-beet refinery or an oil refinery?

The next one: Rocky's nomination is in trouble. If withdrawn, would you accept?

[Laughter]

SECRETARY SIMON: Well, I wasn't prepared -- they weren't in my briefing book, fellas, that you sent me, these two questions.

If I were running in Maine, would I advocate a sugar-beet refinery? I'm not even sure I know what a sugar-beet refinery is.

I have recommended an oil refinery in Maine, and that created some considerable controversy up there I'm told, also. So I scratched that off my vacation schedule in the future.

I will recommend an oil refinery anywhere and everywhere on the East Coast, because it's -- there again, the irresponsible policies and many of the problems we have with the environmentalists, my dear friends, that have created the problems of lack of refinery capacity in this country, which force us to pay for the high-priced product that comes into this country. This is beginning to seep in now that refineries do not billow out the black smoke that they did 30 years ago. We have clean refineries in this country, and we've demonstrated that to New England congressmen who we took out to Bellingham, Washington last year. So we're beginning to see, hopefully, some movement there.

We have great refinery expansion and new construction plans on the drawing board, and it behooves all of us to really assist in every way that we can to increase the productive capacity in this country, and stop putting impediments, government impediments, in their place.

[Applause]

SECRETARY SIMON: As far as Mr. Rockefeller's nomination -- I probably would have been smarter just to go on to the next question, but I always seem to want to answer everything that's asked, unfortunately, and that usually gets me in trouble. Nelson Rockefeller is going to be confirmed as the next Vice President of the United States. And what he is being accused of today, I'll suggest, if everybody'd just sit back for a little or go take a cold shower and sit back a little bit, he's being accused of being generous in many areas, and that makes me rather sad. So I look forward to Nelson's confirmation in the very near future.

[Applause]

SCHEIBEL: At one point you were a strong supporter of the gasoline tax. Even though President Ford has declined to endorse such a tax, do you personally still favor the tax?

SECRETARY SIMON: Talking about getting in trouble. I don't think that there's any one single person in the history of government -- I think I say this with some certainty -- that has been turned down so many times on one suggestion, such as the gasoline tax. Two Presidents have turned me down several times. And that's all right, because we have options. And you deal with options in two ways. You deal with them in "Will they do the job that they're designed to do?" and "Is it possible to pass them?" And what seems to perhaps you and me sometimes to be great common sense and in the best interests and give all the major benefits very often is not possible.

So, what we have to do is not only what's right for the American people in raising the revenues and conserving energy, but also what we know that we can passed in a reasonable period of time, because time is of the essence.

SCHEIBEL: Will there be any changes in the administration of anti-dumping and countervailing duty laws, with or without the trade bill?

SECRETARY SIMON: Well, we've made some administrative changes in the anti-dumping and countervailing duty laws in the last couple of years. And what we're expecting now is that the trade bill will be passed in the near future. And what we seek, of course, is an open system and a removal of non-tariff and tariff barriers and bounties and grants, and I believe we can accomplish this. But we have the laws in anti-dumping and countervailing to protect us in the interim.

SCHEIBEL: What is your feeling about suggestions we eat and consume less so that we can increase our aid to depressed nations?

SECRETARY SIMON: Well, when we talk about -- I have not seen it related, I must admit, about -- suggestions about eating and consume less so that we can -- in order to increase our aid to depressed countries.

We have a responsibility and we've always been a very compassionate and a very humane people. We have a responsibility to other less fortunate countries in the world. There is no doubt about that. We continue to pursue those policies. We will pursue them, however, not to the deleterious effect upon our domestic economy as far as the price structure or our American consumer.

But obviously -- and you heard me say this so often last winter -- that we have been great wastrels. And I used to say that about energy. And then I'd go on to say that with 6% of the world's population we use 35% of the world's energy. Well, you don't have to restrict this to fuel. It goes through every area.

We have been such a fortunate people, a people blessed -- and this is a very important point that you should constantly reflect upon when we listen to all the suggestions about the changes that are required in our country, that we have been blessed. We've been blessed with an economic system that's provided this country with the greatest prosperity and the highest standard of living and the greatest personal freedom, that I spoke of before, of any country in the history of this world. And let us not, again, for the short-run, seemingly attractive alternatives that are being suggested, ever forget this.

We are on the right road. It is not going to be easy. It will be painful. Our policies will be humane in dealing with the pain. But if we cop out this time, the pain will be far, far greater.

[Applause]

SCHEIBEL: Why did the brutally high rates of interest last summer seem to increase rather than decrease inflationary pressures?

SECRETARY SIMON: We can argue that interest rates have some effect on inflation rates. But I do not go along with the brutally high interest rates of last summer increasing, as this question implies, rather than decreasing inflationary pressures.

There again, a high rate of interest, working its way through the economy, has its inflationary impact. But our inflation is a very virulent one caused by all of the measures that I spoke of before. And interest rates and high interest rates are a result of our inflation. They are not a cause. And when we wring inflation out of our economy, you will see interest rates decline. You see interest rates declining today, in response to a slightly easier monetary policy, but as importantly, you're beginning to see the expectation of a lower rate of inflation. And as we bring this inflation rate down, we will once again return to moderate interest rates, and not before.

SCHEIBEL: Mr. Secretary, please tell us if you favor total decontrol of oil prices, when, under what conditions.

SECRETARY SIMON: I do favor total decontrol of oil prices.

Now don't everybody run out of the room, and that'll probably be the headline in the Star tonight -- Simon Favors Decontrol of Oil Prices.

When? I don't know. The conditions today are rather extraordinary, with the OPEC-controlled prices. Obviously, the additional supply is going to bring great pressure on these prices. There is no doubt about that.

Under what conditions and when is really the same question. We will continue to watch that very closely and make sure that any decontrol program that is put forth in the Administration would be done on a phased basis that would have the least inflationary impact.

But a decontrol of domestic prices at this time, remembering that about 55 to 60 percent of the oil in this country that's produced domestically is presently under control, a decontrol of prices immediately, as far as its price effect is concerned, on all the studies that I've seen done by independent as well as government economists, has been somewhere in the area of two to four cents per gallon of gasoline. We're not talking about a significant so-called rip-off.

I always loved that term rip-off. When I look at the government policies that we've had in so many areas, it's your government that's the rip-off, not the free enterprise system in this country, because...

[Applause]

SECRETARY SIMON: ...the policies that we've put in place in many areas in the last -- in the last many, many years have been responsible for the high prices we're seeing in many areas today.

And wait till we start. Just wait till you hear the rhetoric next year from the special-interest group when we start on the ICC and some of our other sacred cows. It'll be a very interesting experience, and I'll be anxious to see the support that we get, or do not get.

SCHEIBEL: A very serious question, Mr. Secretary: Where is your WIN button?

[Laughter]

SECRETARY SIMON: By golly, you know, I have a bigger one here. I'm sorry. I change suits once in a while. This was given to me -- I'm collecting WIN buttons. We not only have our own government WIN buttons, but we have lots of people out in this country that are manufacturing WIN buttons for their own, or buying them, and giving them out ot their own employees.

You know, I read a lot in the newspaper about voluntarism and all of this patriotism and our program won't work. And I hope I've dispelled the notion in a lot of you today that what we're suggesting is voluntarism, because it isn't. Most of what we suggest is darn tough. But what we're also suggesting is the traditional spirit, the American spirit and the patriotism that has always come through. When the American people have the facts about a problem, we all get together behind the wheel and solve 'em. And we're going to do it now, and we're going to do it behind the leadership of President Ford because he is not going to back down on the program, and this time we are not going to cop out.

[Applause]

SCHEIBEL: Mr. Secretary, before I ask the final question today, I'd like to present to you our certificate of appreciation. It's the National Press Club certificate of appreciation for recognition of meritorious service to correspondents, press, radio and television, in the Nation's Capital.

Also, another little gift, Mr. Secretary. You know, one of your predecessors over at the Treasury was digging around in the vault one day and he found a few million Carson City silver dollars. And we were digging around here the other day and we found a collector's item, too, and I want to present it to you now. And it is the original National Press Club, which, as I said, like the silver dollar is rare. Now maybe instead of wearing it, you'll want to put it in the vault at the Treasury.

SECRETARY SIMON: Oh, thank you, Ken. Thank you very much.

[Applause]

SCHEIBEL: Not ready for the final question, not yet.

This winter, Mr. Secretary, if the lights go out at the Treasury because of the policies you have in effect, or because of the ones you don't, we don't want you to be in the dark, of course. So now I want to present some candles to you. These, ladies and gentlemen, are red, white and blue, and they will give their all, and we hopefully will keep you and your staff in the light, running the economy. Also a box of National Press Club matches to keep them lighted.

Now the final question: Don't you think the National Press Club showed admirable restraint today by not turning on the air conditioning, and thereby saving energy?

[Laughter and applause]

SECRETARY SIMON: Thank you, and I almost suffered in silence.

[Laughter]

SECRETARY SIMON: It again has been a pleasure to visit with you, and I look forward to coming back in the near future and responding to your questions. And I look forward in the interim to having the pleasure of meeting with many of you in my office or in other places.

Thank you very much.

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

FOR RELEASE 6:30 P.M. October 29, 1974

RESULTS OF TREASURY'S 227-DAY BILL AUCTION

Tenders for $1.5 billion of 227-day Treasury bills to be dated November 4, 1974, and to mature June 19, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITITVE BIDS: (Excepting 2 tenders totaling $20,000)

High	- 95.021	Equivalent annual rate 7.896%
Low	- 94.987	Equivalent annual rate 7.950%
Average	- 94.998	Equivalent annual rate 7.933% 1/

Tenders at the low price were allotted 100%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 7,120,000	$ 3,120,000
New York	2,476,010,000	962,465,000
Philadelphia	62,000,000	24,400,000
Cleveland	136,125,000	54,125,000
Richmond	33,350,000	4,450,000
Atlanta	2,970,000	2,660,000
Chicago	458,325,000	83,575,000
St. Louis	38,650,000	9,050,000
Minneapolis	32,335,000	1,085,000
Kansas City	6,045,000	2,035,000
Dallas	14,825,000	1,825,000
San Francisco	591,685,000	351,685,000
TOTALS	$3,859,440,000	$1,500,475,000

1/ This is on a bank-discount basis. The equivalent coupon-issue yield is 8.40%.

2/ Includes $ 48,505,000 noncompetitive tenders accepted at the average price.

Department of the TREASURY NEWS

ASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR RELEASE UPON DELIVERY

REMARKS BY THE HONORABLE CHARLES O. SETHNESS, U.S. EXECUTIVE DIRECTOR, INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, BEFORE THE CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY

CHICAGO, ILLINOIS, 12:00 NOON CST, OCTOBER 28, 1974

Vermont Royster titled a recent column in the Wall Street Journal, "The Central Question." His concern was not only identifying the central question of our times, but also to comment on the way our elected and appointed officials think about all of the critical choices facing us as a society. He began his column by pointing obliquely to the difference between simply a good, competent leader and those with vision. He said:

> "One among the many things that raise some political leaders to larger than life size, giving them the name of statesmen, is the ability to recognize the central questions of their times and the courage to act on them. It is a quality that endears them to history, though not always to their contemporaries. It is a quality much needed among us now."

Well, I'm not immodest enough to stand before you today and suggest that I am a statesman or that history will even remark my passing. The important point in Vermont Royster's column has to do not only with recognizing critical issues -- this certainly is vital -- but also with the implication that farseeing leaders and their policies may not always be immediately politically popular. In our democratic society it is always a dilemma as to how much its leaders should reflect public opinion and how much they should seek to guide it. The answer to this dilemma for the statesman lies not only in feeling the pulse of the public, but also in prescribing an appropriate regimen in response.

What is appropriate and responsive varies from case to case, but at the very least, if the pulse is slowing and the patient is slipping, one could seek to alleviate this decline. One would hope to turn it around, and move to a more healthy stability. This reversing of a trend is not always easy, and may in fact not be consistent with the patient's own short term view of his needs.

I use this medical example because my trips from Washington are designed not only to relate to you what I do there, but also to take the pulse of the nation on what we broadly think of as foreign aid. The results of my pulse-taking over the recent past have been sober indeed. I have found an increasingly large number of American people who wish to disengage from overseas commitments and entanglements. In particular, many are asking why we should continue to assist other countries when our own domestic needs are formidable and when past recipients of our aid seem not to remember our generosity. These concerns are real, and have had a decisive impact on our overseas assistance programs.

In quantitative terms the prognosis is very serious. Already the vital signs are deteriorating. Official development assistance as a percentage of GNP was 0.21% in fiscal year 1974 for the United States. That is to say, of all the goods and services produced in this country last year we made only 0.21% available to needy people of the world -- less than 1/25 of the average annual <u>increment</u> in our production over the 1969-73 period. As a point of comparison, in 1949 at the time of the Marshall Plan we made 2.8%

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of our total production available. Looked at another way the U.S. ranked 14th out of 17 Western countries which provide assistance. France, the United Kingdom and even Portugal did proportionately more than we did. Only about 1% of the U.S. federal budget goes for foreign assistance. And for those who would ask that the OPEC countries pick up all of the burden, one must answer that their liquidity is only a year old, is based on the sale of a non-renewable resource, and that in several cases the proportion of their GNP going to foreign assistance is already many times what we are doing. What these figures and comments illustrate is that even though the absolute amounts of assistance we make available may seem high, in reality they are very low in relationship to our wealth, and must be maintained and increased not only to do our fair share, but also to motivate and support the efforts of others.

But this is just one side of the situation. What about the other side? What has been happening in the needy countries at the same time we have been less forthcoming? What has happened is that on the whole their needs have increased, so that the gap between what is needed and what is available has grown even wider. Part of this increase in need stems from one of the great difficulties which is troubling us ...... inflation. But here again we must look at the situation relatively. No matter how vexing inflation is to us with our relative wealth, it may be the difference between life and death for the poor of the world. Lest you think this is an exaggeration, consider the fact that at this very moment there are people in South Asia succumbing to hunger-induced disease because their governments cannot afford the high price of grain. As Mr. McNamara said recently in Washington, "It is true that the affluent nations in the face of shortages and inflation, and in order to continue to expand aid, may have to accept for the time being some selective reduction in their already immensely high standard of living. If they have to, they can absorb such inconveniences.

"But for the poorest countries such a downward adjustment is a very different matter. For them downward does not mean inconvenience, but appalling deprivation. And for millions of individuals in these countries downward means simply the risk of death."

The point is that our problems stemming from inflation are huge, but for the underdeveloped countries inflation implies a fatal erosion of their already meager resources.

This then is the situation: at the precise moment the needs have increased, our commitment to helping others seems to have diminished. It is my view that this turning inward must be arrested; we must take some actions for the long run health of the patient, even though the short run medicine may seem bitter to some. The "bitter" medicine I propose is simply that we as Americans be as generous to others in need now as we have been in the past. To do this we will undoubtedly generate both personal and political controversy, but in the long run the reasons for doing so are compelling.

Succinctly put, I believe a renewed commitment to providing foreign assistance certainly will not hurt us in the short run, surely will help us in the long run, and may well save millions from lives which now are almost inconceivably stunted and degraded in human terms.

Why won't a renewed commitment to foreign assistance hurt us? This is a good question and one which I indicated earlier many people are asking. Although we must acknowledge that there is a cost, albeit a relatively small one, we should also recall that almost all of what is called foreign assistance comprises loans to foreign countries. These are -- it is true -- loans on easy terms, but it is not a give-away program. Most of what is lent out will ultimately be repaid us. Second, in the process of using the proceeds of these loans, the borrowers purchase large amounts of American goods. Thus, there is no substantive strain on our international payments position, production of vital commodities is stimulated and foreign buyers are exposed to American firms. Certainly none of this hurts us. Finally, one cannot even argue that budgeting for foreign aid has an inflationary impact under current conditions. Only if our economy were suffering from aggregate excess demand might this be the case. Given our declining real output, such manifestly is not the case.

So foreign aid doesn't hurt us. But does it help us? My answer to this is a clear yes. The extent of our basic international economic interdepence with others was abundantly demonstrated by what has been called the "oil crisis." If nothing else we should have learned from this that our fate is closely tied with the fate of others. We ignore them at our peril, since politico-economic decisions made on the other side of the globe can affect our daily lives. An open, generous and cooperative international stance is not only an obligation of our preeminent world position, but necessary for a stable and viable future.

It is probably arguable that the U.S. could in some sense be totally self-contained and self-sufficient, and that we really need have little to do with other nations. We could insulate ourselves from others and their needs, but only at the cost of cutting ourselves off from their products and ignoring the consequences of their internal instability. This could only be done at the cost of gross inefficiencies, at a drastically lower standard of living, and in a state of increased international confrontation and uncertainty. Not only is all of this undesirable in itself but it will be unnecessary if we are sufficiently open, international and genuinely cooperative in our outlook. Given these kinds of options I do not feel we have any real choice: we must continue and should increase our assistance to others in the world whose hope for their future to a significant degree depends on us. If you will, the transfusion is not only salutary for the patient, but of significant benefit to the donor. Finally, I do not think we can or should evade the less pragmatic side of the issue -- the moral dimension. Quite simply, what we as a nation do may make the difference for many individuals between lives of misery and lives which are slightly better. And if we choose not to respond to an intensifying of the degradation of others, in an important sense we degrade ourselves. We should not fool ourselves. The problems are huge and, as a practical matter, there may be no way to avoid widespread starvation in the near term. We probably cannot and almost certainly will not meet all the needs. But insofar as we do assist some of the poor of the world to help themselves lead productive lives above a mere subsistence level, we will have done something humanly positive, and in my view imperative. Mental and moral health is as important as physical health.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
WASHINGTON, D.C. 20503

FOR IMMEDIATE RELEASE
Wednesday, October 30, 1974

For information call:
456-2237

GEORGE C. EADS
APPOINTED
ASSISTANT DIRECTOR
COUNCIL ON WAGE AND PRICE STABILITY

Albert Rees, Director of the Council on Wage and Price Stability announced today the appointment of George C. Eads, 32, as Assistant Director, Office of Government Operations and Research. He will be responsible for coordinating the monitoring and review of government practices and policies that have the effect of raising costs and prices.

Mr. Eads comes to the Council from the National Science Foundation where he was project manager for the program sponsoring research in government regulation and its effects on productivity. His prior experience includes teaching economics at George Washington University, Princeton, Harvard, and Yale. He also spent one year at the Department of Justice as Chief Economic Advisor to the Assistant Attorney General, Antitrust Division.

Mr. Eads has specialized in studying government operations and has consulted for the Department of Transportation, Civil Aeronautics Board and the Council of Economic Advisors. He has testified as an expert witness before the CAB and the U.S. Tariff Commission. He has written many articles and reviews on industrial organization and regulated industries.

A 1964 Summa Cum Laude Graduate in Economics from the University of Colorado, Mr. Eads received his MA and PhD from Yale in 1965 and 1968. He was born in Clarksdale, Texas, and raised in Yuma, Arizona.

Mr. Eads and his wife Margaret reside in Washington, D.C.

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CWPS-3

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
WASHINGTON, D.C. 20503

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FOR RELEASE AT 9:15 a.m. EST
Thursday, October 31, 1974

For information call:
(202) 456-2237

Keynote Address by Albert Rees, Director
Council on Wage and Price Stability
before the
Conference on Productivity Costs
and Prices in the Food Industry
Washington, D.C.

The Council on Wage and Price Stability is most grateful to Secretary Butz, one of the members of the Council, for co-sponsoring this Conference with us and for the work of the U.S. Department of Agriculture in organizing it on short notice.

There is no single subject of more concern to consumers today than the rise in the price of food. In the twelve months from September, 1973 to September, 1974 the price of food consumed at home rose 10.9 percent, and further increases are still expected. The price of cereals and bakery products rose 28.7 percent, and the price of sugar has almost tripled.

These sharp rises in the price of food are particularly hard on the poor and the elderly. Food makes up somewhat less than a fourth of the total budget of a middle income family, but it makes up more than a third of a budget of a poor family. Largely for this reason, the price index for the poor, which is not an official government statistic, has been rising more rapidly than the official Consumers Price Index, which is based on a broader range of incomes.

Some of the causes of the rise in the price of food are beyond our control. Some arise from natural disasters, such as hurricanes, drought, floods, and early frost. Some originate beyond our borders, like the rise in the world price of raw sugar.

Many of the causes, however, are not beyond our control. The purpose of this conference is to identify those problems contributing to the high price of food that we can solve, and to begin to organize ourselves effectively to do something about them. We can cut waste, we can improve efficiency, and we can get food from the farm to shopping bag faster, fresher, and at a lower cost.

(more)

One of the basic causes of the high price of food is a critical shortage of fertilizer. We must do everything possible to break the bottlenecks in fertilizer production and in its transportation to market. Sometimes we must suspend time-honored rules and practices to make this possible. In this time of critical fertilizer shortage, we should cut back sharply the use of fertilizer on lawns and golf courses to permit more fertilizer to be used on farms and vegetable gardens. I am informed by experts that the United States uses more fertilizer to grow lawns than India, with its much larger population, uses on all of its crops.

Farmers and consumers alike are upset, even irate, about the sharp recent increases in marketing margins on food. In some cases these margins may have been unduly compressed by price and wage controls in 1972, 1973, and the early part of this year. Some widening of margins was probably needed to provide workers with a fair wage for their labor and businessmen with a fair return on their capital. But as one looks at what has happened since the end of controls, one cannot help wondering whether this process has not gone far enough, and in some cases too far. Consumers may be willing to believe that no one in this country can do much if anything about the price of raw sugar. They may nevertheless suspect that sugar refiners have been taking advantage of the shortage to raise their margins unduly, and this is a question worthy of careful exploration.

On average, the spread between the farm price and the retail price of food is expected to increase 21 percent between 1973 and 1974. This would be nearly three times larger than the largest previous increase.

From third quarter 1973 to third quarter 1974, estimated farm-retail spreads increased 15 percent for beef, 194 percent for sugar, and an unbelievable 303 percent for dry navy beans.

Let me give one more specific example of the change in marketing margins. According to the U.S. Department of Agriculture, in 1973 the average retail price of butter was 92 cents a pound, the average wholesale price was 70 cents, and the margin between these prices was 22 cents. In the first eight months of this year the retail price on average was three cents higher than in 1973, even though the wholesale price was five cents lower. The margin between these prices rose by eight cents, from 22 cents a pound to 30 cents a pound, an increase of 36 percent.

The retail price of butter reached a peak in the last quarter of 1973 and has since fallen by about 11 cents a pound. However, the estimated net farm value has fallen in the same period by 17 cents. The total marketing margin has risen by 6 cents, and the farmer's share of a dollar spent on butter is now far lower than it has been at any time since 1947.

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I have learned by sad experience in my first month as a government official what response to expect to such a story. Everyone involved in the processing, distribution, and transportation of butter will reply that he is not responsible for this increase in marketing margins, and each will have a convincing story to tell to justify his position. The invisible button I see on too many lapels does not read "WIN" for "Whip Inflation Now," but "Inflation is the Other Fellow's Fault."

But our purpose here is not to assess blame or to point fingers at people. It is to find solutions to problems. And when solutions can be found, everyone is better off.

Not long ago, the National Commission on Productivity became concerned about the slow delivery of fruits and vegetables from the West to the East Coasts. Through much hard work, they succeeded in establishing a unit train from California to New York. This required cooperation from the railroads, the railroad unions, and the Interstate Commerce Commission.

This train has been in operation for the past year and has cut the load cycle time of mechanical refrigerator cars in transcontinental service from over 30 days to 21 days, which is the equivalent of adding about 900 cars to the fleet at $45,000 per car.

In my judgment, the biggest single source of potential gains in productivity in the food distribution chain lies in transportation. In many cases, improving efficiency in transportation will require changes in the rules of the independent regulatory agencies of government, or in the legislation that prescribes their activities. We are using outmoded laws and rules from the days of the horse and buggy to regulate transportation in the age of the jet plane and the interstate highway. It is for this reason that I welcome wholeheartedly the President's request for the creation of a National Commission on Regulatory Reform.

However, we cannot wait for such a commission to complete its task before making any changes in our methods of transporting food. The task is too urgent. We must begin now laying the groundwork for this commission and doing some of the most obvious and urgent things. In a time of rampant inflation and critical fuel shortages, it is simply intolerable to have trucks required to follow circuitous routes or to allow freight cars to stand idle or to travel empty when they could be carrying food to market or fertilizer to our farms.

There are also some inefficiences in the food industry that result from working rules embodied in collective bargaining agreements. Since I have recently been quoted on this subject in a trade journal in a way

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that is subject to serious misinterpretation, I should like to set the record straight. I should like to assure my friends in the labor movement and in management--if I still have any friends after three years of administering wage controls--that in my view, which I have expressed before the Joint Economic Committee, any changes in these working rules in the interests of lowering costs must be made through the process of free, voluntary collective bargaining when the agreements expire. The Council on Wage and Price Stability does not have the authority to modify any of the terms of any collective bargaining agreement, and it does not seek such authority. Moreover, in my opinion those who benefit from these working rules are entitled to appropriate compensation for agreeing to modify them.

All producers have certain valuable and hard won rights that protect their livelihood, by law, by contract or by tradition. None of us is anxious to give up such rights, whether we are workers, farmers, corporate executives, college teachers or government officials.

But perhaps in times like these we want to consider not only our own rights, but other peoples' problems. What can we do for the mother sending her children off to school who finds that the prices of cereal and milk have risen sharply, that the price of sugar has skyrocketed, and that her income has remained the same? What can we do for the cattle raiser caught between the low price of livestock and the high price of feed, and whose loan is coming due at the bank? What can we do for the auto worker who is unemployed in part because people are paying so much for food that they must postpone the purchase of a new car?

It simply will not do for any of us to dismiss these problems, either here at this conference or elsewhere, by saying that inflation is the other fellow's fault. We must start saying what each of us is prepared to do to help lower costs, increase productivity, and get inflation under control. We must use that celebrated American ingenuity to find solutions. We must re-examine the way we do things, and not continue to do them in the same old way just because it is the way they have always been done, but begin to do them the way that will get the most food to the most hungry people in the least time.

I have been an economist for more than twenty-five years. Never in that quarter of a century can I remember a time when we have suffered from the terrible combination of high and rising prices and rising unemployment from which we suffer right now. Surely this is not a time for business as usual, collective bargaining as usual, or even govenment as usual. We have got to do better than that. We can, and we will.

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Department of the TREASURY NEWS
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For information on submitting tenders: TELEPHONE W04-2604

FOR IMMEDIATE RELEASE October 30, 1974

TREASURY ANNOUNCES NOVEMBER REFINANCING

The Treasury will auction to the public next week up to $2.5 billion of 3-year notes, up to $1.75 billion of 7-year notes, and up to $0.6 billion of 8-1/2% 24-1/2 year bonds. This will refund $4.3 billion of notes and bonds maturing November 15, and will raise $0.5 billion new cash. The coupon rates for the notes will be determined after tenders are allotted. Additional amounts of the notes and bonds will be allotted to Government accounts and the Federal Reserve Banks in exchange for the maturing securities, of which they hold $2.4 billion.

The notes and bonds to be auctioned will be:

Treasury notes of Series E-1977 dated November 15, 1974, due November 15, 1977 (CUSIP No. 912827 DZ2) with interest payable on May 15 and November 15,

Treasury Notes of Series B-1981 dated November 15, 1974, due November 15, 1981 (CUSIP No. 912827 EA6) with interest payable on May 15 and November 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 3-year notes will be issued in registered and bearer form in denominations of $5,000, $10,000, $100,000 and $1,000,000. The 7-year notes and the bonds will be issued in registered and bearer form in denominations of $1,000, $5,000, $10,000, $100,000 and $1,000,000. The notes and bonds will be issued in book-entry form to designated bidders. Delivery of bearer bonds will be made on November 15, 1974, and December 3, 1974. Bearer notes will be available on November 25, 1974. A purchaser of bearer notes may elect to receive an interim certificate on November 15, which shall be a bearer security exchangeable at face value for Treasury notes of the appropriate series when available.

Tenders for the 3-year notes will be received up to 1:30 p.m., Eastern Standard time, Wednesday, November 6, tenders for the 7-year notes will be received up to 1:30 p.m., Eastern Standard time, Thursday, November 7, and tenders for the bonds will be received up to 2:30 p.m., Eastern Standard time, Friday, November 8 at any Federal Reserve Bank or Branch and at the Bureau of the Public Debt, Washington, D. C. 20226; provided, however, that noncompetitive tenders will be considered timely received if they are mailed to any such agency under a postmark no later than November 5 for the 3-year notes, November 6 for the 7-year notes, and November 7 for the bonds. Each tender for the 3-year notes must be in the amount of $5,000 or a multiple thereof. Each tender for the 7-year notes and the bonds must be in the amount of $1,000 or a multiple thereof. Each tender must state the price or yield offered, if a competitive tender, or the term "noncompetitive", if a noncompetitive tender.

Competitive tenders for the notes must be expressed in terms of annual yield in two decimal places, e.g., 7.91, and not in terms of a price. Tenders at the lowest yields, and noncompetitive tenders, will be accepted to the extent required to attain the amounts offered. After a determination is made as to which tenders are accepted, a coupon yield will be determined for each issue to the nearest 1/8 of 1 percent necessary to make the average accepted prices 100.00 or less. Those will be the rates of interest that will be paid on all of the notes of each issue. Based on such interest rates, the price on each competitive tender allotted will be determined and each successful competitive bidder will pay the price corresponding to the yield he bid. Price calculations will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final. Tenders at a yield that will produce a price less than 99.251 for the 3-year notes and 98.251 for the 7-year notes will not be accepted. Noncompetitive bidders will be required to pay the average price of accepted competitive tenders; the price will be 100.00 or less.

Competitive tenders for the bonds must be expressed on the basis of price, with two decimals, e.g., 100.00. Tenders at a price less than 94.01 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 bonds at the price they bid. Noncompetitive bidders will be required to pay the average price of all accepted competitive tenders; the price may be 100.00, or more or less than 100.00.

Fractions may not be used in tenders. The notation "TENDER FOR TREASURY NOTES (Series E-1977 or B-1981)" 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.

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. However, bidders who submit checks in payment on tenders submitted directly to a Federal Reserve Bank or the Treasury may find it necessary to submit full payment for the securities with their tenders in order to meet the time limits pertaining to checks as hereinafter set forth. Allotment notices will not be sent to bidders who submit noncompetitive tenders.

Payment for accepted tenders must be completed on or before Friday, November 15, 1974, at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt, except that payment for up to 50 percent of the amount of bonds allotted may be deferred until December 3, 1974, as set forth in the following paragraph. Payment must be in cash, 5-3/4% Treasury Notes of Series A-1974 or 3-7/8% Treasury Bonds of 1974, which will be accepted at par, in other funds immediately available to the Treasury by November 15, or by check drawn to the order of the Federal Reserve Bank to which the tender is submitted, or the United States Treasury if the tender is submitted to it, which must be received at such bank or at the Treasury no later than: (1) Tuesday, November 12, 1974, if the check is drawn on a bank in the Federal Reserve District of the Bank to which the check is submitted, or the Fifth Federal Reserve District in case of the Treasury, or (2) Friday, November 8, 1974, if the check is drawn on a bank in another district. Checks received after the dates set forth in the preceding sentence will not be accepted unless they are payable at a Federal Reserve Bank. Where full payment is not completed on time, 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.

If partial payment for the bonds is to be deferred until December 3, 1974, the bidder must indicate on the tender form the amount of bonds allotted on which payment will be deferred. Accrued interest from November 15 to December 3, 1974, will be charged on the deferred payment at the rate of $4.22652 per $1,000 face value. In the case of partial payment from bidders who are required to submit a 5 percent deposit with their tender, 5 percent of the total amount of bonds allotted, adjusted to the next higher multiple of $1,000, will be withheld from delivery until the total amount due on the bonds allotted is paid.

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 notes or bonds bid for under this offering at a specific rate or price, until after the closing hour for the receipt of tenders for each particular issue.

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FOR IMMEDIATE RELEASE October 31, 1974

EMERGENCY LOAN GUARANTEE BOARD ANNOUNCES LOCKHEED PARTIAL REPAYMENT

The Emergency Loan Guarantee Board announced that Lockheed Aircraft Corporation has reduced loans outstanding under Government guarantee from $245 million to $230 million by repayment yesterday of $15 million to the Company's lending banks.

Lockheed is authorized under terms of its agreement with the Emergency Loan Guarantee Board to borrow up to a maximum of $250 million under Government guarantee.

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FOR IMMEDIATE RELEASE October 31,1974

JOHN H. HARPER NAMED AS TREASURY SPECIAL ASSISTANT

Secretary of the Treasury William Simon has named John Harris Harper as a Special Assistant. Mr. Harper will assist Secretary Simon in his duties as Chairman of the President's Economic Policy Board by assisting the Secretary in assuring prompt implementation of the President's economic program.

Mr. Harper, a native of Florence, Alabama, has been Deputy Assistant Administrator for Operations, Regulations and Compliance at the Federal Energy Administration, an assignment he took during the Arab Oil embargo.

A lawyer, Mr. Harper received his undergraduate and law degrees at Emory University, Atlanta, Georgia, and is a member of the Alabama, District of Columbia and Georgia bars. He came to Washington in the middle 60's as an administrative assistant to Representative John J. Flynt, Jr. of Georgia. He returned to Alabama to practice law in Birmingham. He later joined the Investment Bankers Association in Washington, D.C. as Assistant General Counsel and before joining the Energy Administration was Legislative Counsel for the National Association of Electric Companies in Washington, D. C.

Mr. Harper is married to the former Margaret Munger McCall and lives in Cabin John, Maryland. They have two daughters.

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REMARKS OF THE HONORABLE CHARLES A. COOPER
ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS
BEFORE THE
FAR EAST-AMERICA COUNCIL OF COMMERCE AND INDUSTRY INC.
AT THE PLAZA HOTEL
NEW YORK, NEW YORK, OCTOBER 23, 1974

This month marks the anniversary of the Yom Kippur War, the oil embargo, and the first of the series of major oil price increases. Over the past year there has been a great deal of discussion about the broad implications of the "energy shock" for the world economy. In the hope of helping to focus that discussion, I would like today to look at Asian experience with this problem as broadly representative of the experience of the oil importing world. Japan, a developed country; India, Bangladesh and the Indochina nations as countries which were experiencing serious difficulty even before the energy crisis, with very low per capita income and growth rates and scant foreign exchange reserves; and finally, Korea, the Republic of China and the Philippines as developing countries which were doing well -- achieving impressive rates of growth and a strong export performance -- before the disruptions which began a year ago.

The world economy is now going through a period of unprecedented adjustment. We estimate at the Treasury that the OPEC countries will amass surplus revenues this year of some $55 billion. As a consequence, the rest of the world will run a current account deficit of the same magnitude. Oil importers as a group cannot collectively reduce their current account deficit and individual efforts to do so will inevitably affect the positions of other countries. To the extent that drawdowns in foreign exchange reserves can't or don't meet the bill, their current account deficits must be financed by what amounts to borrowing -- including, of course, OPEC investments of all kinds.

It seems to me that in our discussions of recycling we could focus some useful attention on the problems posed by differences between countries' ability and willingness to borrow. For some countries, borrowing has been a familiar and effective means of balancing their external accounts. For others, especially poorer LDC's, it has been a desired solution with the availability or credit the limiting factor. Other nations traditionally have tried to avoid increasing their external indebtedness. These differences in attitudes and abilities persist and have important implications for the way in which the OPEC financial surplus is channeled to the rest of the world.

For example, Japan, judging by both experience and announced policy objectives, is a country that is not prepared simply to borrow to finance a current account deficit for a sustained period and is prepared to accept the economic adjustments necessary to limit such borrowing. Japan was among those whose balance of payments was hardest hit by higher oil prices. Relying on oil for 75% of its energy requirements and importing all its oil, Japan faced the prospect of a massive increase in its oil import bill to something on the order of $20 billion in 1974 in the aftermath of the oil price increases. In 1973, the Japanese current account position had deteriorated by some $6 1/2 billion to appproximate balance, after years of substantial surplus. Although a modest improvement in the non-oil current account was foreseen, higher oil prices were expected to push the current account balance into a deficit approaching $7-8 billion.

It now appears that Japan's current account deficit in 1974 will be considerably less than earlier anticipated and may even be moving into balance or surplus. The current account deficit peaked in the first quarter of 1974, at about $2.5 billion, seasonally adjusted, and had just about disappeared in the third quarter. In part, this improvement is due to reduced volumes of oil imports in response to higher oil prices. In part, it results from the domestic slowdown, which, coupled with continued strong demand for Japanese products in overseas markets, has yielded an absolute reduction in real imports and a surge in exports. The non-oil trade accounts have now moved into a surplus which far exceeds the corresponding figures for the same period last year.

Japan has, of course, borrowed substantial amounts abroad this year. In the first three quarters, the net external position of Japanese commercial banks declined by about $8 billion. Relaxation of restrictions on long-term capital inflows also contributed to a substantial reduction in net capital outflows to slightly over $3 billion thus far this year, as compared with almost $7 billion in the same period a year ago. The deficit this year has been financed without major difficulty, leaving Japan well positioned to borrow additional funds abroad should the need arise. But Japan's position is rapidly moving to the point at which additional net borrowing will not be necessary.

Japan's desire to improve its balance of payments position has accorded well with its domestic policies which have responded to rapid inflation and to the nation's traditional social objectives. Consumer prices were clipping ahead earlier this year at a 25% annual rate and whole sale prices at a 35% pace. A virtual wage explosion this past spring brought inflation into the headlines and into the political arena. Faced with the unacceptable prospect of industry layoffs and unemployment as a result of wage-price pressures, the Japanese authorities turned their efforts to a determined attack on inflation. Japan has thus chosen to tighten its belt and accept lower levels of national income to dampen inflation and the resulting slowdown in economic activity has been a substantial factor in turning its external accounts around.

The speed and magnitude of the turnaround in Japan's external position inevitably raises questions about the international consequences of this development. Some have argued that, if the world payments pattern is to be sustainable and equitable, Japan should now be running a current account deficit and taking advantage of its demonstrated credit worthiness to finance that deficit. It has been noted that there has been a noticeable depreciation of the yen rate this year. It is also widely believed that the Japanese authorities have an important degree of control over capital movements that can be used to influence exchange market pressures.

Clearly, however, Japan has not had recourse to the kinds of troublesome competitive practices that countries have been criticized for in earlier periods. Japan has accepted and adhered to the obligations of the pledges negotiated in the OECD and the IMF to avoid restrictive measures affecting current account transactions, as well as the introduction of export subsidies. It has not intervened in the foreign exchange market to drive down the yen exchange rate, and in fact has on occasion intervened to support the yen. Nor can the slowdown in growth in Japan this year, paralleling the decline in economic activity around the industrial world, and needed to fight dangerous inflation rates, be considered a form of competitive deflation.

Yet the fact remains that the stronger current account balance achieved this year in Japan, and the favorable prospects for maintaining such a position next year, inevitably poses difficulties for other oil importing countries who also prefer to adjust rather than simply to expand their borrowing to cover higher deficits.

The fourfold increase in oil prices also hit hard another group of Asian countries -- the relatively poor LDC's of South Asia and the Indochina peninsula. With large segments of their population living in deep poverty even before the energy crisis, the sharply higher fuel costs, shortages and price increases of fertilizers, and the unprecedented round of global inflation all served to add to their burdens, particularly since the export performance of these countries has not been strong.

Unlike Japan, these countries were facing serious balance of payments problems before the oil price increases. By and large, they enjoyed only limited access to private financial markets, and depended extensively on infusions of foreign official funds to finance their deficits. With limited resources and limited flexibility for adjustment in the short-run, these countries need to borrow substantial sums of money to finance their deficits this year and in the years immediately ahead.

These countries, of course, are not without means to adjust to the present difficulties. In India, for example, action has been taken to reduce the volume of oil imports 5 percent. Production of domestic coal, which is in abundant supply, is to be increased. Tax incentives have been provided to encourage switch-overs from oil to coal for industrial uses. Contracts have been signed for exploration for oil in the Bay of Bengal, and promising results have been obtained in another offshore area, the Bombay High. In the longer run, of course, changes in the structure of India's agricultural distribution system, tax system, foreign investment policy and other economic policies are needed, not just to adjust to current problems but to promote growth and development of the Indian economy on a sustained basis.

It is not realistic, however, to expect the poorer nations of Asia to adjust fully to the changed economic conditions in the world economy. Concessional aid is needed, and is being provided through traditional bilateral aid programs, new oil producer channels, and, of course, the international development banks. At the same time, even for these nations, the industrial nations of the world will have their largest impact through commercial investment and trade flows, and in this sense, what is most important are the economic conditions that prevail in Japan, the U.S. and Western Europe over the course of the next months and years.

Korea, Taiwan and the Philippines exemplify a middle group of developing countries that had made great progress in reducing their dependence and aid before the energy crisis but now face the prospect of having to finance enlarged current account deficits by drawing down reserves and borrowing heavily from a combination of private and public capital sources. It is certainly not a prospect they accept happily but it is one they can accept, at least for a period of time.

Korea has served as an example of how a developing nation with few natural resources could use its labor and managerial talent to develop a powerful industrial base. Primarily by processing imported raw materials into manufactured exports, that country saw its exports rise 35% annually in the period 1968-73. With this strong growth in exports, Korea experienced little difficulty in obtaining foreign loans and attracting the foreign direct investment needed to balance its external accounts.

With no petroleum resources, Korea was hard hit by the oil price increases. Including a small increase in volume, POL imports which cost just over $300 million in 1973 are expected to cost $1.2 billion this year. Korea hopes to increase exports again this year at the rate of recent years. Nonetheless, Korea's current account balance will still be in deficit by approximately $1.1 to $1.2 billion this year -- three times the 1973 level.

To finance this deficit, Korean authorities are seeking about $500 million of additional short-and medium-term capital this year from private banks and export credit institutions. The Government also is encouraging further direct investment by private foreign firms, particularly in the export sector where they already play an important role. The ROK is also attempting to increase the level of borrowing from public institutions such as the Asian Development Bank and the International Monetary Fund. Korea's probable access to the IMF oil facility this year will finance about one-fourth of the incremental cost of POL products in 1974.

Taiwan and the Philippins have made progress similar to that of Korea in recent years, and they face similar prospects. Taiwan's oil import bill is expected to rise some $500 million this year; that of the Pilippines by about the same amount. They too can borrow from a mix of private and public sources.

But none of these countries will want to do so in any greater amounts than is needed to offset the increased costs of their own oil bill. And, like Malaysia and Singapore, they have experienced success in developing rapidly growing export markets for their products, and can benefit on the export side from higher world prices. They have a real ability to adjust to changed conditions and to limit the potential growth in their indebtedness.

In short, economic prospects of Asian nations have all been seriously hit by the oil price increases -- through inflation, slower rates of economic activity and various degrees of financial pressures. And all are adjusting - though not by any means in the same way. Two key issues need careful consideration.

The first centers on the association between responsible national and international behavior in an increasingly interdependent world. The energy shock has adversely affected economic prospects in all oil importing countries. We are now witnessing determined national responses to these strains, and undoubtedly some countries could in the short-term respond more adequately than others. Yet to the extent that individual nations are successful in reaching their goals, others may have greater difficulty in attaining their objectives. Unlike the past, the international adjustment process is not taking place in an environment of growth and prosperity but in one of relative stagnation. At no time in recent history has the economic interdependence of the world posed such a challange. Domestic objectives and international responsibilities must be simultaneously faced up to.

But what is a country's international responsibility? Do creditworthy countries have a special obligation to accept current account deficits in the short run to ease the adjustment burdens of those who lack the ability to borrow? If so, does a country have an obligation to take positive action in these circumstances, or is it adequate merely to avoid competitive practices? I will not pass judgment on such complex matters today. I do feel, however, that it is is essential that the oil importing countries continue to seek to broaden their understanding of their shared goals and shared responsibilities, and that the pace of international consultation, formal and informal, be maintained in order to reach the kind of consensus needed to develop new rules and understandings appropriate to the changed circumstances of the world economy.

The second major issue we must tackle involves the respective responsibilities of the private and public sectors. Thus far this year, private financial markets have adjusted well to the strains created by abrupt shifts in the pattern of international capital flows. National banking systems have played a prominent role in the recycling process, and they will certainly continue to play an important one. But governments and international institutions have increasingly participated. We see growing evidence that new financial relationships are being established directly with the OPEC countries. A special oil facility has been established in the IMF.

Although the complex of existing financing mechanisms has been effective so far, that is not the whole story. Certainly some LDC's have an immediate and pressing need for substantial public assistance on concessional terms. The new Development Committee established under the aegis of the IMF and IBRD will give priority attention to this problem. For the world economy, generally, however concessional aid is hardly the answer.

Many particular concerns have been expressed and solutions of one kind or another proferred. We believe there is great dynamism and flexibility in private financial and commercial markets, and that market adjustments will over time make a fundamental contribution. At present, the U.S. maintains an open mind on whether new institutional adjustments are necessary. However, as Secretary Simon indicated at the International Monetary Fund, if there is a demonstrated need that new financing mechanisms are needed, the U.S. would support their establishment. The important thing is to prepare carefully so that we can move promptly if a need should become evident.

The nations of Far East Asia face a particularly difficult period of uncertainty and transition. The trading and investment patterns which have served so well to promote the development of many of these nations will be strained by the energy shock. In Asia, as elsewhere, the public and private sectors are both struggling to cope with the new economic and financial burdens. The future economic health of these nations will depend not only on public policy, but also on the initiative and imagination of the private sector. Those relatively liberal economies of Asia have been the bright spots of the past decade, and that fact must not be forgotten. Political and economic conditions have perhaps been more propitious in the past, but the real challenge is to ensure that the over-all framework of the world economy permits private industry and commerce to continue to play the dynamic role in the future that they have in the past. The real tragedy would come if in trying to adjust to present economic and political strains, we were to allow conditions to develop in which free markets, private institutions, and international trade and investment turned out to be much less powerful engines of economic growth and development than has been the case in the past three decades. Asia has shown how powerful these forces can be. As we work with other nations to manage current economic problems, it is essential that effective institutional forums and workable rules of international behavior be developed which permit the virtues of a liberal world economic system to be sustained. In this endeavor, what governments agree to is not more important than what private investors and traders do. And, in this sense, I am pleased to know that your Council will continue to work to support and sustain vigorous economic interchange between Asia and the United States. The solution to the problem of an interdependent world lies in more interdependence -- not less.

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FOR RELEASE TUESDAY, NOVEMBER 12

TREASURY SECRETARY SIMON NAMES HAUGE OF MANUFACTURERS HANOVER AS 1975 CHAIRMAN OF U. S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE

Gabriel Hauge, Chairman of the Board, Manufacturers Hanover Trust Co., Manufacturers Hanover Corp., New York, is to be 1975 Chairman of the U. S. Industrial Payroll Savings Committee, as appointed by Secretary of the Treasury William E. Simon. He is the first representative of the banking industry to serve as Chairman.

Since its formation in late 1962, the Committee, composed of chief executives of leading industries, has sparked the sale of U. S. Savings Bonds through the Payroll Savings Plan.

Hauge will succeed John D. deButts, Chairman of the Board and Chief Executive Officer, American Telephone and Telegraph Co. He will take office as 13th Chairman at the annual meeting of the Committee in Washington, January 16. Hauge served on the Committee in 1973 and 1974, as Banking Industry Chairman.

In naming Hauge, Secretary Simon said -- "I am delighted that you have agreed to be our 1975 Chairman of the U. S. Industrial Payroll Savings Committee. You have assured a continuation of the outstanding leadership which has made the Committee a vital force in the management of the public debt and in promoting the stability of our economy . . . Your acceptance of the Chairmanship means a great deal to me and to the Nation."

The mission of the Committee is to stimulate systematic savings via regular purchase of Series E Bonds by employees throughout the nation. Employers will be urged to sign up at least one of every two employees not now participating in the Payroll Plan, and to obtain an increase in allotment from at least one of every two employees now enrolled.

Hauge voiced a keen belief in the Bond Program and the vital role it plays in the battle against inflation. "It is to the best interests

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of every American, every industry, to support such a program that helps combat inflation and encourages fiscal stability. Our Bond Program does both. First, it works to offset inflation by removing money temporarily from the spending stream. Second, and no less imperative, it serves immeasurably in aiding the debt management of the Treasury. The average seven-year life-span of Savings Bonds is more than twice that of other government securities. The result is that Americans who buy Bonds are furthering the national economy, while receiving a good return on their money."

Hauge was born in Hawley, Minn., March 7, 1914. He attended Concordia College, Moorhead, Minn., earning an AB degree in 1935. After a year as Assistant Dean of Men and Coach of Forensics at Concordia, he entered Harvard University, receiving an MA in Economics in 1938. From 1938 to 1942, Hauge taught economics, first at Harvard and, beginning in 1940, at Princeton. In 1942, he joined the Navy, seeing fleet action in the Pacific Theater. He earned his PhD in Economics at Harvard in 1947.

Following graduation, he joined the New York State Banking Department, as Chief of the Division of Research and Statistics. He moved to McGraw-Hill Publishing Co., Inc., in 1950, where he was Assistant to the Chairman of the Executive Committee, also Editor of the "Trend" section of "Business Week". Hauge worked on the Eisenhower campaign staff in 1952, and was named Administrative Assistant to the President for Economic Affairs in January 1953. He became Special Assistant to the President for Economic Affairs in July 1956.

He joined Manufacturers Trust Co., in October 1958, as Chairman of the Finance Committee and, when that bank became Manufacturers Hanover Trust Co., in 1961, he was named Vice Chairman of the Board. He has since served as President of the Company, 1963-1971, and President of Manufacturers Hanover Corp., 1969-1971. He assumed his present post in 1971.

Hauge serves on the Boards of Manufacturers Hanover International Finance Corp.; Manufacturers Hanover International Banking Corp.; American Metal Climax, Inc.; Chrysler Corp.; New York Life Insurance Co.; Council on Foreign Relations, Inc.; National Council on U. S./China Trade; Julliard Musical Foundation; Greater New York Fund; Business Committee for the Arts, Inc.; United Fund of Greater New York. He is also a member of the Federal Advisory Council of the Federal Reserve System; New York Urban Coalition, Inc.; The Century Association; University Club; New York Athletic Club, and the Economic Club of New York.

He and his wife, the former Helen Lansdowne Resor, have seven children -- Ann Bayliss, 25; Stephen Burnet and John Resor, 23; Barbara Thompson, 22; Susan Lansdowne, 20; Elisabeth Larsen, 17, and Caroline Clark, 12.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR RELEASE AT 1:00 P.M. OCTOBER 31, 1974

ADDRESS OF WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE NATIONAL PRESS CLUB
WASHINGTON, D.C.

Good afternoon. It is certainly a pleasure to return to the Press Club. Speaking here is always an exhilarating experience, and I'm glad to be back.

The problems of the economy, of course, are the occasion for my visit this afternoon. Before turning to your questions, I would like to devote a few moments to a brief overview of those problems as well as their solutions.

Most of you are very familiar with the litany of economic problems facing us today. Prices are still galloping upwards, while production and employment are turning down. Oil prices are still too high, and stock prices are too low. Consumer purchasing is off, and consumer spirits have sagged even further. As one of our political friends is suggesting this fall, the housewife who buys a three-pound steak isn't sure whether she should barbecue it or bronze it.

This is not a picture of glowing health, but by any fair set of measurements, the patient is in much better shape than many people think. Actually, there are no mysteries about the cause of sickness, nor in my opinion is there any real doubt about the cure. To me, the real question is whether we have enough wisdom and political courage to take the right medicine.

General prescriptions for the economy now seem to fall into three categories. Each presentation contains many different variables, but for the sake of time and simplicity let me describe them in the broadest terms.

The first, generally speaking, is to begin stimulating the economy through fiscal and monetary policy and then, in order to contain the new inflationary pressures that would be created, to impose some new form of wage and price controls. The advantage of this approach, it is said, is

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that we would have the best of both worlds: we would avoid sliding into a deep recession or even a depression, and we would also be saved from the ravages of inflation. Moreover, we would have the pleasure of instant relief.

The second alternative, one that you hear about infrequently but one that we could easily slip into if we're not careful, is to take no medicine at all. To those who advocate this position, the costs of curing our inflation seem greater than the costs of inflation itself. Let's just live with inflation, they say.

Then there is a third option, the option that the Administration supports, which concentrates the attack first and foremost upon inflation. The theory is that through the classic discipline of fiscal and monetary restraint as well as other measures, we can gradually bring down the rate of inflation. The medicine should never be so strong that we send the economy into a serious tailspin, but it must be strong enough that we continue to have some slack in the economy. There will be significant costs and hardships, but these can be cushioned by public employment programs, tax relief for lower-income families, and the like.

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Furthermore, without seriously weakening the fight against inflation, we can inject economic stimulus into unusually weak areas of the economy like housing. And where inflation results from shortages, as in food and fuel, we can encourage greater production by taking positive steps such as conservation of fuel and by carefully lifting the shackles of government control. This is a complex, multi-dimensional approach, but with patience and discipline, it will gradually reduce inflation and restore production and employment to a state of good health. Moreover, it will preserve the free enterprise system that I believe is essential to our future growth.

Some critics suggest that we have already tried this third approach and it failed. I disagree. The fact is that whenever we have tried it, we have copped out before it became effective. One of the best examples occurred only a short time ago. After a rapid acceleration in the rate of inflation during the late 1960s, a program of fiscal and monetary restraint was started in 1969. As a result, inflation peaked out at 6 percent and then declined slowly to the 3 percent zone by 1972. The upward momentum of inflation had been stopped. But then, instead of maintaining the policies of moderation, we became more expansive again and we very swiftly propelled ourselves into the inflation that we are experiencing today.

There has also been an ominous tendency in recent years for every round of inflation to carry us to a higher plateau. As the rate of inflation goes higher, inflationary expectations are increased, new escalator clauses are included in contracts and other inflationary forces are built into the economy. It thus becomes a much more difficult task to return to the inflation rates of earlier years.

We're not the only ones who have been unwilling to stick to a policy of moderation. The British and many of the European nations have followed the same path of least resistance, and they are also paying a heavy penalty today. Only West Germany has been resolute, and they now have the lowest rate of inflation in the industrialized world -- and one of the healthiest economies.

New Controls: A Way to Wreck the Economy

Having set forth the Administration's general approach it is only fair that I tell you why I oppose the other alternatives. It's very simple: They won't work. The Ford program may not be pleasant-tasting medicine, but it has the clear and unique virtue of being the only program that promises a long-term solution.

My chief objection to stimulating the economy while also imposing wage and price controls is that controls will only create new havoc in this country. Throughout history, economic controls have proved that they are utterly unable to cure inflation. We see the same failure today in England where inflation is running between 15-20 percent, and yet controls have been in place there for many months. Short-term gains can sometimes be realized, as we found here in 1972, but over time controls produce serious inequities and serious distortions in the economy and they seriously weaken the incentives for new investment. Ultimately, controls would destroy our economy and destroy our freedom.

Some political candidates this fall are asserting that our controls would have worked last time if we had only left them in place. That answer, ladies and gentlemen, is an open invitation to a centralized economy, and it cannot be said often enough that centralizing the American economy is the surest means we have of killing the goose that lays the golden egg. What we need in this country is less government, not more government.

Another major flaw of any new pump-priming program is that it attacks the wrong problem first. In my view, inflation presents not only a greater threat than the fear of a deep recession but really bears a large share of responsibility for producing the current sluggishness in the economy.

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This is a point that is often overlooked. Yet it was the high rate of inflation, through its impact on the financial markets, that dried up the supply of mortgage credit and sent the housing industry into a tailspin. And it was inflation, through its debilitating effect on consumer confidence, that caused the biggest reduction of consumer retail purchases in postwar history. These are two sectors of our economy that have been the weakest, and inflation takes the blame. Ironically then, pumping up the economy would only make these problems worse. Only by concentrating our primary attack on rising prices will we be able to wring out inflation and restore a pattern of stable, healthy growth to our economy. We have missed similar opportunities in the past. For once, let us attack the causes of inflation, not the results.

Why Action is Imperative

It is at this point in the argument that someone throws up his hands in disgust and says it's so complicated and costly to cure inflation that the best solution is to do nothing. Just let the inflation run on.

I submit that this is a policy of despair -- and a policy that is cruel and intolerable. It assumes that everybody can cope with inflation, but we know from recent experience that this is untrue. It would also do nothing to cure the problems of sluggish growth. Only if we have credible anti-inflationary policies will we put the zip back into the economy. Finally, this policy would surely weaken our resolve to keep the economy from overheating again.

There is no escape from economic discipline. Bad government policies on both the fiscal and monetary fronts helped to get us into this mess, and if we want to get out, we are going to have to change our ways.

The Ford Program: Comprehensive and Effective

The Ford economic program, I believe, is aimed squarely at our number one problem -- inflation -- but it is also comprehensive enough to assault many other problems now embedded in our economy:

-- It seeks to curb the incredible growth in Federal spending by cutting $5-6 billion from our current budget and even more from next year's budget.

-- By applying a new measure of restraint to Federal spending, it permits the Federal Reserve to ease up gently on monetary policy. The Federal Reserve should no longer have to bear the sole burden of the fight against inflation.

-- In addition, the Ford Program seeks to cushion the effects of its anti-inflationary policies by providing expanded public employment and jobless benefits to the unemployed as well as additional tax relief to lower-income Americans.

-- It seeks to stimulate long-term capital investments by industry -- investments that will create new jobs and new products at lower prices -- by strengthening tax incentives.

-- In a supreme test of our will to combat inflation, it seeks to balance the cost of these new programs with a 5 percent surtax on individual and corporate taxpayers. The amount of tax required by this one-year measure will be extremely small for the great majority of our population.

-- In addition, the President is trying to alleviate the effects of oil prices by reducing our imports of foreign oil by one million barrels a day by the end of next year.

-- And to reduce the commodity shortages that now exist in the food and fuel areas, the President is trying to secure the legislation that would encourage far greater domestic production of both.

There are more than 45 points to the Ford economic program, but this brief summation should show that it is comprehensive and attacks a variety of problems simultaneously. To those who insist that it is too weak, I ask whether you seriously think the Congress will be easily persuaded to come even this far.

One analysis I saw last weekend suggested that if the Ford Administration would be willing to drop some of the so-called weaker measures, such as the surtax and spending cuts, then maybe it could obtain passage of some really tough measures like gas rationing. Let's not kid ourselves. The proposals that are on the Hill now are already tough enough. I can assure you that if the Congress will accept them, we will already be a long way down the road toward an ultimate solution.

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Speaking Out as Treasury Secretary

To me, then, the cure to our problems is clear cut. The difficult question is whether we have the courage and the wisdom to stick it out until the medicine has had time to take effect.

In recent weeks, I have made a point of speaking out against government policies of the past 20 years, including some that are still in effect. You will hear more of that in the future, because I consider current government policies to be our single greatest threat in the fight against inflation.

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There are some areas, of course, where the government does have a constructive and important role to play. But we are long overdue in wiping out the many government policies that stunt the growth of our economy and fuel the fires of inflation.

In coming weeks, within the Economic Policy Board, we will be focusing on a number of key questions to determine whether specific changes should be made in government policies. Among those questions will be:

-- The role of the regulatory agencies;
-- The efficiency of our transportation system;
-- The capability of the agricultural sector;
-- The degree of competition in financial markets;
-- The tradeoff of environmental and economic concerns; and,
-- The efficiency of government procurement policies.

In a meeting of the Executive Committee of the Economic Policy Board this morning, we worked on two issues that concern every housewife in America: the cost of sugar and the profits of middlemen in the food industry.

In that session, I directed the Council on Wage and Price Stability to hold public hearings as soon as possible on the price of sugar, concentrating particularly on the margin between the price of raw sugar and the price of refined sugar. At this hearing, representatives of sugar refiners, sugar-using industries, and consumers will be invited to appear. When we get the facts, we will take whatever action is warranted.

We have also asked Albert Rees to report back to the Board on the results of a meeting which the Council of Wage and Price Stability and the Department of Agriculture are holding today with all elements of the food industry on profit margins in the food industry. It greatly concerns me that farm prices have declined 9 percent, while consumer prices for food have gone up 6 percent. In addition, the spread between the farm price and retail price of food is expected to increase 21 percent between 1973 and 1974. This jump is three times larger than anything we have ever experienced before. After the distortions of the wage and price controls and the freeze on food prices, some adjustment is necessary but these major developments seem totally inconsistent with the direction of farm prices. With times as difficult as they are, we cannot permit one segment of the economy to reap unjust enrichment at the expense of everyone else.

In many of the areas that the Economic Policy Board will be considering, action will doubtlessly be needed -- action not just by the Executive Branch but by the Congress and the private sector as well. And to secure the cooperation of all elements of our economy, we will need public support.

It is clear that the public already shares our great concern for inflation. A recent Gallup poll showed that 81 percent regarded inflation as the country's number one problem-- the highest rating that any problem has received in a quarter of a century. It is not so clear, however, whether the public fully understands why we consider a balanced program of moderate restraint to be the best solution. Nor is it clear that the public would rally behind a concerted effort to hack away at some of the government's sacred cows that do far more harm than good.

To get that message across, we must rely upon you -- the leaders of the press. Of course, I would not ask you to defend the Administration's position, but I earnestly appeal to you to help the American people understand the choices that we face. And I want to work with you more closely so that you will fully understand the complexity of our problems and can carry out your duties as writers, editors and broadcasters. For that very reason, I am especially grateful for the opportunity to speak here today and I look forward now to answering your questions.

Thank you.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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MEMORANDUM TO CORRESPONDENTS November 1, 1974

Attached is the text of a letter from Treasury Secretary Simon to Collier Carbon and Chemical Corp., a subsidiary of Union Oil Company of California, granting on a limited basis, a request for a waiver of the Jones Act.

Secretary Simon's action will permit the company to transport anhydrous ammonia from Alaska to the Pacific Northwest in foreign bottoms to alleviate a serious fertilizer shortage. The shortage is threatening the production of wheat, barley and other commodities, as well as certified hay and grass seeds that are marketed and used for crop production throughout the United States. Grant of the waiver was strongly urged by the Secretary of Agriculture.

The waiver, which is limited in scope and duration, was granted because of the loss of a refrigerated barge for which a suitable U.S. flag replacement vessel is not available. If this shipping capacity were not replaced, the potential supply of fertilizer available to the Pacific Northwest would be reduced by approximately one-third from a level that is already considered inadequate.

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THE SECRETARY OF THE TREASURY
WASHINGTON

NOV 1 1974

Dear Mr. Henderson:

In accordance with your request of October 30, 1974, and a recommendation of the Secretary of Agriculture, and pursuant to the authority of the Act of December 27, 1950, (64 Stat. 1120), compliance with the applicable provisions of the navigation laws, including but not necessarily limited to section 883, title 46, United States Code, is hereby waived to the extent necessary to permit the transportation of anhydrous ammonia by any foreign flag vessel from Kenai, Alaska, to Rivergate, Oregon (North Portland, Oregon). This waiver is effective immediately and terminates on December 31, 1975.

I deem that a waiver on the conditions outlined above is presently necessary in the interest of national defense. While no commitment can be made at this time, if the conditions found to be present at this time, including the circumstances of the need for anhydrous ammonia fertilizer in the Pacific Northwest, and available methods of delivery, are substantially unchanged from the present, I will consider your request for extension of this waiver for not more than two periods of one year each.

Appropriate United States Customs Service officials have been notified of this waiver.

Sincerely yours,

William E. Simon

Mr. T. C. Henderson
President
Collier Carbon and Chemical Corp.
P. O. Box 60455
Los Angeles, California 90060

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

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FOR IMMEDIATE RELEASE November 1, 1974

TREASURY TO SURVEY FOREIGN PORTFOLIO INVESTMENT IN U.S.

The Department of the Treasury published today in the Federal Register proposed regulations, instructions, and forms to implement its responsibilities under the Foreign Investment Study Act of 1974 (Public Law 93-479).

Signed by President Ford on October 26, 1974, the Act directs the Secretary of the Treasury to conduct a comprehensive, overall study of foreign portfolio investment in the United States. A parallel study of direct investment will be conducted by the Department of Commerce.

A major part of the Treasury study will be a benchmark survey of foreign portfolio investment in the United States as of December 31, 1974. For purposes of the survey, foreign portfolio investment includes all securities of a United States corporation, including stocks, bonds, and other evidence of ownership or long-term indebtedness, held by a foreign person owning less than 10 percent of the voting securities of the corporation. Investment by foreigners who own a 10 percent or greater interest will be reported to the Department of Commerce.

In addition to corporate interests, the Treasury survey will cover foreign portfolio ownership of limited partnership interests, investment trust certificates, and other evidences of ownership or indebtedness of non-corporate enterprises. Exempted from the survey, however, are debt obligations which have an original maturity of one year or less.

Reports will be required from all U.S. issuers of securities having assets of more than $20 million, or $50 million in the case of banks, on Form FPI-1. Firms with assets of less than these amounts will be required to file only if they have evidence of foreign investment and all issuers having assets and annual sales of less than $1,000,000 respectively are exempted from the reporting requirements.

Reports on Form FPI-2 will be required from U.S. persons who may be acting as holders of record (e.g., nominees, trustees, fiduciaries) on behalf of foreign persons. Holders of record which hold no more than $25,000 of United States investments on behalf of foreign persons, parents acting as custodians for minors, and certain estates and trusts will be exempt from the reporting requirements.

The reports will be due on March 1, 1975. The Treasury expects to publish final regulations, forms and instructions in the Federal Register early in December. It is anticipated that forms and instructions will be available in early January at which time they will be mailed to the larger issuers and holders of record.

Prior to final publication, the Treasury will consider comments on the regulations, forms and instructions as published in proposed form. Comments should be submitted in writing by November 22, 1974, to the Foreign Portfolio Investment Project, Office of the Assistant Secretary for International Affairs, Room 5064, Department of the Treasury, Washington, D. C. 20220.

FOR IMMEDIATE RELEASE OCTOBER 28, 1974

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

It gives me great pleasure to have signed S. 2840, the "Foreign Investment Study Act of 1974."

A recent study by the executive branch concluded that the available information on the activities of foreign investors in the United States is inadequate. The bill I sign into law today will go a long way toward remedying that deficiency.

This bill provides for the Departments of Commerce and the Treasury to undertake comprehensive studies of foreign direct and portfolio investment in the United States. Under the authority provided by the bill they will (1) conduct "benchmark" surveys of all existing foreign direct and portfolio investment in the U. S.; (2) analyze the effects of foreign investment on the U. S. economy; (3) review our existing reporting requirements that apply to foreign investors; and (4) make recommendations on means for us to keep our information and statistics on foreign investment current. These surveys will be conducted early next year and cover data for 1974; an interim report of the results will be submitted to the Congress twelve months after the date of enactment of this act and a full and complete report, together with appropriate recommendations, within eighteen months of the date of enactment.

When this study is completed, we will be in a position to know better how to conduct ongoing monitoring of foreign investment activity in the United States. Earlier, this Administration had opposed new reporting systems which would have lacked the benefits of the information which will be generated by the actions under S. 2840. We are not opposed to keeping a watch on foreign investment, but we do want to do it in the most efficient and helpful way, with the aid of the greatest possible amount of data.

As I sign this act, I reaffirm that it is intended to gather information only. It is not in any sense a sign of a change in America's traditional open door policy towards foreign investment. We continue to believe that the operation of free market forces will direct worldwide investment flows in the most productive way. Therefore my Administration will oppose any new restriction on foreign investment in the United States except where absolutely necessary on national security grounds or to protect an essential national interest.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
WASHINGTON, D.C. 20503

FOR IMMEDIATE RELEASE

For information call:
(202) 456-6757

November 1, 1974

COUNCIL ON WAGE AND PRICE STABILITY TO HOLD HEARING ON INVENTORY REPRICING

Shelf inventory repricing practices in supermarkets and other retail stores will be the topic of a hearing by the Council on Wage and Price Stability, to be held on November 13, Council Director Albert Rees announced today.

The hearing, to be held at 9:30 a.m. in Room 2008 NEOB will be cochaired by the Consumer Advisor to the President, Ms. Virginia Knauer.

Mr. Rees said, "The practice of changing the price of merchandise already on the shelves is upsetting to shoppers. We are interested in finding out what the justification for this practice is, if any, and why some food chains are unwilling to change their policy while others have been able to do so successfully.

Ms. Knauer, a Member of the Council, said, "This has been a matter of great concern to consumers everywhere. Fortunately, there seems to be a growing awareness in the industry that this practice should be changed. We hope this hearing will provide a catalyst for further action."

Testifying at the hearing, which will be open to the public, will be representatives of major food chains and consumer groups.

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

FOR IMMEDIATE RELEASE November 1, 1974

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,900,000,000 , or thereabouts, to be issued November 14, 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 August 15, 1974, and to mature February 13, 1975 (CUSIP No. 912793 VV5), originally issued in the amount of $ 2,004,240,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,100,000,000, or thereabouts, to be dated November 14, 1974, and to mature May 15, 1975 (CUSIP No. 912793 WJ1).

The bills will be issued for cash and in exchange for Treasury bills maturing November 14, 1974, outstanding in the amount of $4,706,875,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,765,627,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, 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 one-thirty p.m., Eastern Standard time, Friday, November 8, 1974. Tenders will not be received at the Department of the Treasury, 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.

Banking institutions and dealers who make primary markets in Government

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

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. 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 or Branch on November 14, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing November 14, 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 bills (other than life insurance companies) issued hereunder must include in his Federal 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.

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

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

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FOR RELEASE ON DELIVERY AT 2:00 P.M.

ADDRESS BY WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE WHITE HOUSE FIELD CONFERENCE
ON DOMESTIC AND ECONOMIC AFFAIRS
THE COLISEUM, PORTLAND, OREGON, NOVEMBER 1, 1974

Good afternoon. It is a great pleasure for me to visit the State of Oregon and especially the City of Roses.

In the two years that I have served in the Government, I have frequently had the opportunity to work with your Congressmen, your Senators and your fine Governor, Tom McCall. Based on that experience, I can certainly understand why this State has won a shining reputation for its leadership. So it is good to come here today.

Recognizing that you will be hearing a number of speeches at this conference, I thought I would speak rather briefly about the overall state of our economy, tell you what we're trying to do to solve some of the problems, and then open up the floor for a lengthier question and answer session.

Most of you are familiar with the litany of economic problems now confronting us. Prices are still going up, while production and employment are turning down. Stock prices are too low, but oil prices are too high. Consumer purchasing power is off and consumer spirits have sagged even further. One politician out on the stump this fall is talking about a housewife who bought a three-pound steak and couldn't decide whether to barbecue it or bronze it.

Inflation: Number One Danger

Some people say that we are looking down the wrong end of a double-barreled shotgun, with inflation in one barrel and recession in the other. I would agree, but of the two dangers, I would argue that inflation presents a far greater threat than recession. In fact, inflation is one of the causes of our sluggishness. To solve our problems, we must therefore concentrate first and foremost on inflation.

The sluggishness in the economy is a serious concern, but it is important to keep it in perspective. Our economy still has massive strengths. Plant and equipment spending is up 12 percent this year. Despite all the talk of a world-wide economic collapse, American exports are also continuing to grow rapidly. The rate of unemployment, while climbing, is still less than 6 percent. We are also continuing to create new jobs in the economy -- more than 7-1/2 million in the past four years -- and total employment hit another all-time high in September.

Here in Oregon the rate of unemployment showed a slight dip in September from the previous month, dropping from 5.5 percent to 5.3 percent on an unadjusted basis. Moreover, during the past year, 24,000 new jobs were created here.

We recognize that this is not a picture of glowing health, and we must remain alert to the possibility of a further downturn in the economy. But for now, it is clear that we are in no danger of plunging over the economic precipice. I would urge you to remember that. Let us not fall prey once again to the doomsayers who are predicting a depression and would have us abandon the policies of moderation and restraint that are essential for a full economic recovery.

The Costs of Inflation

Those policies are squarely aimed at the number one economic problem facing us today: inflation. We are now in the grips of the worst peacetime inflation in United States history. Neither the economy nor the people of this country can live with it for a sustained period of time.

As prices have mounted in recent months, Americans have already paid a heavy toll:

-- The average worker has suffered a 4 percent decline in his real spendable earnings over the past year.

-- Corporate profits are also being chewed up, despite the headlines. After adjustment for the effects of inflation on inventory values and capital consumption allowances, the retained earnings of non-financial corporations in 1973 were less than one-fifth of what they were in 1965.

-- Similarly, there has been a decline of more than $400 billion in equity values for 30 million stockholders since early 1973, inflicting heavy potential losses on individual families, pension funds and a wide range of financial institutions.

One aspect of our current inflation that is frequently overlooked is the extent to which it has caused the sluggishness in the economy. It was the high rate of inflation, through its impact on the financial markets, that dried up the supply of mortgage credit and sent the housing industry into a tailspin. And it was inflation, through its debilitating effect on consumer confidence, that caused the biggest reduction of consumer retail purchases in postwar history. These are two sectors of the economy that have been the weakest, and inflation takes the blame.

Ironically then, pumping up the economy would make these problems worse. Only by focusing our primary attack on rising prices will we be able to wring out inflation and restore a pattern of healthy, stable growth to our economy. We have missed similar opportunities in the past. For once, let us attack the causes and not the results of inflation.

<u>The Causes of Inflation</u>

Despite the staggering rate of inflation, I would once again urge that this is no time to hang black crape all over the economy.

To look on the brighter side, let's keep in mind that more than half of our recent inflation can be attributed to special factors, including the recent quadrupling of oil prices, crop setbacks in 1972 and 1973, and the boom that many of the industrialized nations all experienced together in the early 1970s. None of these things should happen again in the foreseeable future.

Oil prices, for instance, should not continue to rise, and by all rights they should retreat. The international price of oil is far higher than it should be. For both political and economic reasons, the current international price of oil is not sustainable. Economically, the price level is exerting enormous pressures on other nations to become more self-sufficient. There have been 26 major oil finds outside the OPEC bloc in recent months -- discoveries that should help to increase world supplies. Moreover, countries such as the United States and France are making a major effort to conserve energy and reduce foreign imports. In view of the pressures that are building up, I think it's no longer a question of <u>whether</u> oil prices will fall but <u>when</u> they will fall.

We should recognize, however, that even as the special factors such as oil prices and crop failures work their way through the economy, there are other, more fundamental causes of inflation still at work. They have been building up over more than a decade of irresponsible governmental policies, so that it will take time to get rid of them. But for the first time, I think we're dead serious about making the effort.

One of these fundamental causes is the Federal budget -- a monster that hit the $100 billion mark in 1961, the $200 billion figure in 1970, and the $300 bilion range in 1974. In only one year of the last fourteen has the Government been able to balance its books.

When the government continually engages in deficit financing, especially with huge sums of money in rather tight markets, it automatically becomes a major source of instability. It drives up prices by increasing aggregate demand. It drives up interest rates through Federal borrowing in the money markets. And of utmost importance, it smashes public confidence in the ability of the Government to deal with inflation.

In my opinion, Federal monetary policy has also pumped too much stimulation into the economy over the past decade. Between 1955 and 1965, the money supply grew at a rate of about 2-1/2 percent a year, and we enjoyed reasonable price stability. Since 1965, the rate of growth in the money supply has doubled to six percent a year. It is no coincidence that during this same period prices have skyrocketed.

It is less apparent but no less true that many of the Government's regulatory policies -- policies that stunt economic growth and encourage inflation -- are at the source of our difficulties today. Two of the best examples are food and fuel, two areas where the government has stifled production for an unconscionable length of time. Those policies must be changed.

Today we have more government than we need, more government than most people want, and certainly more government than most people are willing to pay for.

The Ford Economic Program

As you can see, our problems are complex. If we only had to worry about recession, the solutions would be simple and relief would come quickly. Similarly, if we only had to worry about inflation, the answers would be straight-forward. Because our problems are multi-dimensional, however, our policies must be multi-dimensional -- concentrating first and foremost upon inflation but also assaulting the many other problems embedded in our economy.

That is precisely what President Ford's program is designed to do. It is a comprehensive program, encompassing some 45 points in all, but it will work if we have the patience and political courage to make it stick. In essence, here is what it would do:

-- It would curb the incredible growth in Federal spending by cutting $5-6 billion from our current budget and it would give us a much better chance of balancing the budget in future years.

-- By applying a new measure of restraint to Federal spending, it would permit the Federal Reserve to exercise more flexibility in monetary policy. Fiscal and monetary policies would be in better balance so that the Federal Reserve should no longer have to bear the sole burden of the fight against inflation.

-- In addition, the Ford Program would cushion the effects of its policies by providing expanded public employment and jobless benefits to the unemployed as well as additional tax relief to lower-income Americans. Let us all recognize that lower-income Americans frequently bear a disproportionate share of the burden in the fight against inflation. It is essential that our policies be humane and compassionate.

-- The Ford economic program would also stimulate long-term capital investment by industry -- investment that will create new jobs and new products at lower prices -- by strengthening tax incentives.

-- In a real test of our will to combat inflation, it would balance the cost of these new programs with a 5 percent surtax on individual and corporate taxpayers. This tax would last for only one year, and its cost will be extremely small for the great majority of our population.

-- The President is also trying to alleviate the effects of oil prices by reducing our imports of foreign oil by one million barrels a day by the end of next year.

-- And to reduce the commodity shortages that now exist in the food and fuel areas, the President is pressing for legislation that would encourage far greater domestic production of both.

This program is based four-square upon one of the most comprehensive examinations of the American economy that we have ever had. The summit conference last month gave us an excellent chance not only to educate the public about our problems but to draw upon the best minds in the country in order to find the answers.

Some critics have said that our program is too weak, that we're only nibbling the bullet or biting a marshmallow. Well, I've never heard a tax increase characterized that way before, and we're only kidding ourselves if we think that it will be easy to cut the budget. In coming weeks, we will also be taking a hard look at the sacred cows in Government such as the ICC, and I can guarantee you that our actions will lead to a hard fight. And again, the Ford program resists the easy, seemingly attractive alternative of overheating the economy. We know that's the wrong thing to do, and we plan to stand firm. In short, the Ford program is tougher than most people realize.

Other critics who have railed against the cruel burden of a surtax seem to have overlooked the fact that a typical family of four with an adjusted gross income of $20,000 would pay only $42 more in taxes for this program. I say that that is a small burden, and it is certainly not as cruel as the hidden tax on their income that inflation has extracted.

The art of politics continues to be the art of the possible. Everyone in Washington, and indeed everyone out here in Oregon, knows that this is the toughest program that we will be able to get through the Congress. If we succeed, I can assure you that we will make major progress toward solving our economic problems.

Can We Stick To It?

The major question confronting us, I would re-emphasize, is not whether we know how to cure inflation -- we do. There is really no mystery about the causes of our current problems, nor is there any doubt about the cure. The major question is whether we have the courage and the wisdom to stick it out until the medicine has had time to take effect.

In recent years there has been an extremely unfortunate tendency for this country to choose the short-term, easy way out instead of the policies that would make our economy healthier in the long-run. It's a "fly now, pay later" philosophy on a grand scale.

It has been apparent for many years that the best way to curb inflation is to apply policies of fiscal and moderate restraint. But we've only been willing to do it in fits and starts. Whenever it starts hurting a little bit, we cave in to the political pressures and begin overheating the economy, only making inflation worse. Indeed, every new bout of inflation seems to carry us to a higher plateau, so that the rate of inflation that was intolerable only a few years ago now seems like the promised land. It thus becomes a much more difficult task to work our way back down to the inflation rates of earlier years.

We went through this syndrome only a short time ago. After a rapid acceleration in the rate of inflation during the late 1960s, a program of fiscal and monetary restraint was started in 1969. As a result, inflation peaked out around 5 percent and started to decline in 1971. The upward momentum of inflation had been stopped. But then, instead of maintaining the policies of moderation, we became more expansive again -- and we very swiftly propelled ourselves into the inflation that rages today.

We're not the only ones who have made this mistake. The path of least resistance has also been followed in recent years by many European nations, and they are also paying the price today. Only West Germany has been resolute, and they now have the lowest rate of inflation in the industrialized world -- and one of the healthiest economies.

I think we have learned our lesson and this time, my friends, we're <u>not</u> going to cop out. These stop-and-go policies must cease. We're going to ride this tiger of inflation until we have it licked.

Let me warn you that there will be temptations to take the easy way out again. We can already hear the siren songs from those who want to pump up the economy again. Those are the same people who called for controls the last time around, and they will be at it again before long. I hope we have learned our lesson that controls produce serious inequities and serious distortions in the economy, and they badly weaken the incentives for new investment. Ultimately, controls would destroy our economy and destroy our freedom.

It cannot be said often enough that a centralized economy in America is the surest means we have of killing the goose that lays the golden egg. What we need in this country is not more government but less government.

A half century ago, Woodrow Wilson provided us with a key to the fight against inflation when he described how another kind of war had been won. "I tell you, fellow citizens, that the war was won by the American spirit," he said. "...It only took half as long to train an American army as any other, because you had only to train them to go one way."

Ladies and gentlemen, the doomsayers among us who say that America is in a serious decline and that we should abandon the inflation fight are only sounding the call to retreat. If all of us -- the Congress, the Executive, and especially the American people -- will rally behind the fight against inflation, it can certainly be won. It will not be easy. We will need a strong measure of patience and self-sacrifice. But it can be done. And I know that as representatives of this fine state you can be counted on for help.

Thank you.

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

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FOR RELEASE 6:30 P.M.

November 1, 1974

ASURY'S WEEKLY BILL AUCTIONS

13-wk	26-wk
Last auction	
7.892	7.766
To-day	
7.880	7.857
Low since	
7.524 10/21/74	7.39
high since	
9/23/74	7.928

of 13-week Treasury bills and for $2.1 billion h series to be issued on November 7, 1974, erve Banks today. The details are as follows:

k bills bruary 6, 1974	:	26-week bills maturing May 8, 1975	
Equivalent Annual Rate	:	Price	Equivalent Annual Rate
7.718%	:	96.092	7.730%
7.952%	:	96.011	7.890%
7.880% 1/	:	96.028	7.857% 1/

000

for the 13-week bills were allotted 98%.
for the 26-week bills were allotted 66%.

CCEPTED BY FEDERAL RESERVE DISTRICTS:

		Accepted	:	Applied For	Accepted
		30,960,000	:	$ 24,275,000	$ 14,275,000
		,130,475,000	:	2,722,405,000	1,746,365,000
		36,555,000	:	36,430,000	21,430,000
		60,055,000	:	40,930,000	25,930,000
Richmond	26,665,000	26,665,000	:	18,060,000	18,060,000
Atlanta	32,660,000	32,660,000	:	17,095,000	17,095,000
Chicago	242,970,000	152,960,000	:	189,555,000	118,200,000
St. Louis	46,785,000	34,785,000	:	33,830,000	18,330,000
Minneapolis	20,845,000	20,845,000	:	12,935,000	6,935,000
Kansas City	32,360,000	32,350,000	:	20,930,000	19,920,000
Dallas	37,960,000	37,960,000	:	18,195,000	16,195,000
San Francisco	148,965,000	103,965,000	:	170,975,000	77,285,000
TOTALS	$3,408,095,000	$2,700,235,000 b/		$3,305,615,000	$2,100,020,000 c/

b/ Includes $417,890,000 noncompetitive tenders accepted at average price.
c/ Includes $211,115,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 8.15% for the 13-week bills, and 8.30% for the 26-week bills.

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

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FOR RELEASE 6:30 P.M. November 1, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 2.7 billion of 13-week Treasury bills and for $2.1 billion of 26-week Treasury bills, both series to be issued on November 7, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 6, 1974		26-week bills maturing May 8, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.049 a/	7.718%	96.092	7.730%
Low	97.990	7.952%	96.011	7.890%
Average	98.008	7.880% 1/	96.028	7.857% 1/

a/ Excepting 1 tender of $920,000

Tenders at the low price for the 13-week bills were allotted 98%.
Tenders at the low price for the 26-week bills were allotted 66%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 40,960,000	$ 30,960,000	$ 24,275,000	$ 14,275,000
New York	2,671,115,000	2,130,475,000	2,722,405,000	1,746,365,000
Philadelphia	36,555,000	36,555,000	36,430,000	21,430,000
Cleveland	70,255,000	60,055,000	40,930,000	25,930,000
Richmond	26,665,000	26,665,000	18,060,000	18,060,000
Atlanta	32,660,000	32,660,000	17,095,000	17,095,000
Chicago	242,970,000	152,960,000	189,555,000	118,200,000
St. Louis	46,785,000	34,785,000	33,830,000	18,330,000
Minneapolis	20,845,000	20,845,000	12,935,000	6,935,000
Kansas City	32,360,000	32,350,000	20,930,000	19,920,000
Dallas	37,960,000	37,960,000	18,195,000	16,195,000
San Francisco	148,965,000	103,965,000	170,975,000	77,285,000
TOTALS	$3,408,095,000	$2,700,235,000 b/	$3,305,615,000	$2,100,020,000 c/

b/ Includes $417,890,000 noncompetitive tenders accepted at average price.
c/ Includes $211,115,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 8.15% for the 13-week bills, and 8.30% for the 26-week bills.

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press inquiries: 202-964-2615

FOR IMMEDIATE RELEASE

November 4, 1974

SUMMARY OF LENDING ACTIVITY

October 21 - November 1, 1974

Federal Financing Bank lending activity for the period October 21 - November 1 was as follows:

On October 22, the Bank signed a $30 million commitment with the Department of Health, Education, and Welfare to purchase notes issued by public agencies and previously purchased by HEW under the Medical Facilities Loan Program. On the same day, the Bank purchased $1 million of these notes at an interest rate of 8.75%.

On October 23, the Bank purchased $2 million of Small Business Investment Company 10-year debentures at an interest rate of 8.50%. The securities are guaranteed by the Small Business Administration.

On October 24, the Bank purchased $130 million of 98-day notes from the Tennessee Valley Authority at 8.07% interest. Proceeds of the loan were to refinance $100 million in notes previously sold to the Bank and to raise $30 million in new funds for TVA.

On October 24, the Bank purchased $500 million of 5-year Certificates of Beneficial Ownership from the Farmers Home Administration at an interest rate of 8.44% on an annual basis.

On October 31, the Bank purchased $300 million 5-year Tennessee Valley Authority Power Bonds at an interest rate of 8.50%.

On October 31, the Bank made a $80 million 91-day loan to the Student Loan Marketing Association (Sallie Mae) to refund a maturing $100 million note held by the FFB. The interest rate on the new loan is 8.60%.

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

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FOR IMMEDIATE RELEASE NOVEMBER 5, 1974

U.S. BOARD FOR ENROLLMENT OF ACTUARIES ESTABLISHED UNDER NEW PENSION LAW

A Joint Board for the Enrollment of Actuaries, required under the recently enacted Employee Retirement Income Security Act of 1974, has been established by Treasury Secretary William E. Simon and Labor Secretary Peter J. Brennan.

The Joint Board will establish standards and qualifications for persons performing actuarial services in connection with employee benefit plans covered by the new law. Only persons enrolled with the Joint Board will be permitted to prepare and sign actuarial statements that are required from all pension benefit plans under the law.

The initial membership of the Joint Board comprises:

The Deputy Secretary of the Treasury, or his delegate;
The General Counsel of the Treasury, or his delegate;
The Commissioner of Internal Revenue, or his delegate;
The Under Secretary of Labor, or his delegate;
The Solicitor of Labor, or his delegate.

The Order establishing the Joint Board and making the initial appointments is scheduled to be published in the <u>Federal Register</u> for Tuesday, November 5, 1974. A copy of the text is attached.

Attachment

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WS-150

DEPARTMENT OF LABOR

DEPARTMENT OF THE TREASURY

EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974

Establishment, Delegation of Authority and Appointment of Members for the Joint Board for the Enrollment of Actuaries

1. Establishment of Joint Board. Pursuant to section 3041 of the Employee Retirement Income Security Act of 1974, there is hereby established a Joint Board for the Enrollment of Actuaries.

2. Duties of Joint Board. The Joint Board shall have responsibility for

(A) establishing standards and qualifications for persons performing actuarial services with respect to employee benefit plans covered by the Act to practice before the Department of Labor and the Internal Revenue Service,

(B) enrolling individuals pursuant to those standards and qualifications, and

(C) suspending or terminating the enrollment of such individuals, pursuant to section 3042 of the

The Deputy Secretary of the Treasury,
or his Delegate;

The General Counsel for the Department
of the Treasury, or his Delegate;

The Commissioner of Internal Revenue,
or his Delegate;

The Under Secretary of Labor,
or his Delegate;

The Solicitor of Labor,
or his Delegate.

Signed at Washington, D.C. this 31st day of October, 1974.

signed: Peter J. Brennan
Secretary of Labor

signed: William E. Simon
Secretary of the Treasury

Employee Retirement Income Security Act of 1974. All regulations of the Joint Board shall be approved by the Secretary of Labor or his delegate and the Secretary of the Treasury or his delegate before they are issued.

3. Membership. The Joint Board shall consist of not less than five nor more than nine members, who shall be appointed by the Secretary of Labor and the Secretary of the Treasury, either jointly or separately in such proportions as the two Secretaries shall determine. Each member shall serve at the pleasure of the appointing Secretary or Secretaries.

4. Bylaws. The Joint Board shall propose bylaws (and amendments to bylaws) relating to the conduct of its business and the exercise of its rights and powers. Such bylaws (and amendments to bylaws) shall be approved by the Secretary of Labor or his delegate and the Secretary of the Treasury or his delegate prior to their adoption.

5. Appointments. The following persons are hereby appointed as members of the Joint Board for the Enrollment of Actuaries established pursuant to section 3041 of the Employee Retirement Income Security Act of 1974:

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
WASHINGTON, D.C. 20503

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FOR IMMEDIATE RELEASE
Wednesday, November 6, 1974

For information call:
(202) 456-6757

COUNCIL ON WAGE AND PRICE STABILITY SETS DATE FOR SUGAR HEARINGS

The substantial increase in the price of sugar will be the topic of a hearing by the Council on Wage and Price Stability, to be held on November 25, Council Director Albert Rees announced today.

In making the announcement, Mr. Rees said, "The price of sugar has tripled over the last year. We are interested in finding out what factors have caused this increase and what could possibly be done to bring the price down."

Testifying at the hearing, which will begin at 10:00 a.m. in Room 2008 of the New Executive Office Building, will be representatives of sugar producers, refiners and industrial users, as well as consumer groups.

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CWPS-6

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE November 7, 1974

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for $2,000,000,000, or thereabouts, of 364-day Treasury bills to be dated November 19, 1974, and to mature November 18, 1975 (CUSIP No. 912793 WV4).

The bills will be issued for cash and in exchange for Treasury bills maturing November 19, 1974, outstanding in the amount of $ 1,800,640,000 of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $ 1,134,740,000. 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, 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 one-thirty p.m., Eastern Standard time, Wednesday, November 13, 1974. Tenders will not be received at the Department of the Treasury, 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.

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

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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.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. 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 or Branch on November 19, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing November 19, 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 bills (other than life insurance companies) issued hereunder must include in his Federal 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.

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

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

FOR IMMEDIATE RELEASE

November 6, 1974

RESULTS OF AUCTION OF 3-YEAR TREASURY NOTES

The Treasury has accepted $2.5 billion of the $4.3 billion of tenders received from the public for the 3-year notes auctioned today. The range of accepted competitive bids was as follows:

Lowest yield	7.78% a/
Highest yield	7.87%
Average yield	7.85%

The interest rate on the notes will be 7-3/4%. At the 7-3/4% rate, the above yields result in the following prices:

Low-yield price	99.921
High-yield price	99.685
Average-yield price	99.737

The $2.5 billion of accepted tenders includes 82 % of the amount of notes bid for at the highest yield, and $0.6 billion of noncompetitive tenders accepted at the average yield.

In addition, $1.1 billion of the notes were allotted to Federal Reserve Banks and Government accounts at the average yield, in exchange for securities maturing November 15.

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a/ Excepting 4 tenders totaling $185,000

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
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MEMORANDUM TO CORRESPONDENTS November 6, 1974

The attached exchange of correspondence is made available in response to public inquires concerning the gold provisions of Public Law 93-373.

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WS-151

THE DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
DOMESTIC GOLD AND SILVER OPERATIONS

328

NOV 6 1974

Dear Walter:

Thank you for your letter of October 25, 1974 following up our telephone conversation and setting forth your ideas as to when the gold provisions of Public Law 93-373 will take effect.

As your letter observes, the legislation itself states that its provisions "shall take effect either on December 31, 1974" or some earlier date if the President so determines. You express the view that the face of the statute plainly indicates that the termination of the gold restrictions will take place on December 31, 1974, and that it will become legal to begin transactions in gold immediately on that date.

We have looked into the matter of the effective date, and we concur with your conclusion that it will be legal to deal with gold pursuant to Public Law 93-373 on December 31, 1974. As your letter recognizes, uncertainty concerning the date may have grown out of the feeling in some quarters that the Congressional intent was to make a "clean break" at year-end. In fact, you may have seen some gold advertising which appears to presuppose that January 1, 1975 will be the first date when transactions in gold will be legal. The legislative history of the enactment is itself somewhat contradictory on the point and contains language that would arguably support either the December 31, 1974 or the January 1, 1975 date.

Nonetheless, we have concluded that the plain language of the statute as well as basic rules of statutory interpretation indicate clearly that December 31, 1974 is the final operative date.

Sincerely yours,

Thomas W. Wolfe
Director, Office of Domestic
Gold and Silver Operations

Walter Freedman, Esquire
Freedman, Levy, Kroll & Simonds
1730 K Street, N. W.
Washington, D. C. 20006

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OFFICE OF DOMESTIC
GOLD AND SILVER
OPERATIONS

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October 25, 1974

Dear Tom:

This letter is written in accordance with our recent telephone conversations in which I raised with you the question of the proper interpretation of the amended section 3(c) of Public Law 93-110 enacted into law on August 14, 1974. (P. L. 93-373)

As amended, the section states that the prohibition limiting people from purchasing, holding, selling or otherwise dealing in gold in the United States and abroad shall take effect either "on December 31, 1974, or at any time prior to such date that the President finds and reports . . . ."

Obviously if the President fixes a date for the resumption of trading in gold prior to December 31, 1974, that date will govern. In the event, however, the President fails to act, thus permitting the trading to resume simply by the expiration of time, the question arises whether trading can begin on December 31, 1974.

I am not unmindful that during much of the discussion leading to the adoption of the amendment, it was assumed by some that the ban would end with the year end and that trading would be resumed at the start of the new year. However, the clear and unequivocal words used by the Congress - and these, of course, necessarily control - stipulate that the prohibition against any ban in trading takes effect "on" December 31, 1974.

It is our opinion therefore, that the Commodity Exchange, Inc. ("COMEX"), which plans to permit trading in gold on its exchange, can commence such trading with the opening of business on December

31, 1974. I would like to have you confirm that your office does not take a contrary view of the amendatory language contained in P. L. 93-373.

All good wishes.

Sincerely,

Walter

Walter Freedman

Mr. Thomas W. Wolfe
Office of Domestic Silver and Gold Operations
Department of the Treasury
Washington, D.C. 20220

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

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FOR RELEASE UPON DELIVERY

REMARKS BY THE HONORABLE JOHN M. PORGES
U.S. EXECUTIVE DIRECTOR, INTER-AMERICAN DEVELOPMENT BANK
BEFORE THE BURLINGTON ROTARY CLUB
BURLINGTON, VERMONT, OCTOBER 21, 1974

I am delighted to be in Burlington and happy to have this opportunity to talk with you about the economic situation in Latin America. As United States Executive Director of the Inter-American Development Bank, and as a commercial banker with 20 years of prior experience in the region, I have observed significant changes in the southern part of our hemisphere.

Let me first tell you about the work of the Inter-American Development Bank and then talk about oil, the supply of other raw materials and the trade and investment stake of our country in Latin America.

Since its establishment in 1959, the Inter-American Bank has played a critical and catalytic role in the economic and social advance of its member countries.

- Through its direct loans for industry and agriculture, respectively 16 per cent and 24 per cent of total cumulative lending, as well as through loans channeled through Latin American development banks to those sectors, the Bank contributes greatly to the growth of the region's directly productive sectors -- most of it benefiting the growth of the region's private sector.

- Through its basic infrastructure loans for electric power (20 per cent of total lending), highways and communications facilities (another 20 per cent of total lending), the Bank provides the basic underpinnings which also enable private enterprise to grow and prosper.

. Through its education and technical cooperation loans, it provides the professional technology and skilled manpower needed by the region's productive enterprises and in addition contributes to the solution of the region's pressing employment and underemployment problems.

. Finally, through its support of such social sectors as water and sanitation systems, housing for low-income sectors and assistance to small-scale farmers, the Bank helps to improve the quality of life of countless Latin Americans far beyond their expectations of just a decade ago. Taken together, education and various other loans with important social impact, account for nearly 20 per cent of the Bank's cumulative lending activity.

Before going on with the work of the Inter-American Bank, which in addition to helping Latin America has been a boon to the United States in terms of employment and exports, I would like to consider the general economic situation of Latin America today and focus on recent developments.

You are aware, I am sure, of the U.S. Government's commitment to a mature and responsible relationship with Latin America. This relationship calls for a more equal partnership in which the nations of the region make their own basic decisions about economic and social development questions. It also emphasizes genuine multilateral cooperation in international economic matters as opposed to the former bilateral relationships. U.S. support of the growing role of the Inter-American Development Bank (IDB) at the same time that our own bilateral assistance efforts decline, clearly illustrates this aspect of our relationship.

Nonetheless, problems have remained. There has always been a feeling in the region that the U.S. Government has not paid enough attention to Latin American economic and social aspirations. In this connection, the Latin nations press hard for greater access to our own vast market for their manufactured goods. They seek generalized preference arrangements with all the developed countries or a special arrangement with the United States.

A special relationship with the United States on trade has long been sought by Latin America. Recent events in petroleum production now point up the advantages of such a relationship to the United States.

Last winter, when oil supplies from the Middle East were cut off, the flow continued uninterrupted from Venezuela. Ecuador, Trinidad and Tobago and Bolivia are becoming important producers. Mexico is now self-sufficient in oil, and newspaper accounts indicate extraordinarily large strikes in Chiapas and Tabasco. Intensive exploration is now going forward in the jungles of Eastern Peru.

The southern part of this hemisphere can help provide us with significant supplies of oil. Mexico, for example, has declined for the moment to join with OPEC countries and is not compelled to adhere to established price levels.

Yes, we have been hard hit by the energy problem. We have felt directly the increased costs of gasoline and fuels for heating. There have also been additional increased costs of transportation passed through to a range of goods affecting all aspects of our lives.

We could face parallel situations of shortage in other raw and semiprocessed materials -- bauxite, for example, which we import from Jamaica and Surinam. I cannot emphasize enough that the United States has an overwhelming interest in developing good economic relationships with Latin American countries and in assuring ourselves of adequate and reliable supplies of critical raw materials.

Let me place in perspective the overall trading relationships between the United States and Latin America. In proportionate terms, that trade has been more important to the region than to us. In 1973, for example, 12.5 per cent of United States exports went to Latin America, while 11.7 per cent of its imports came from that region. By contrast, these same countries got nearly 40 per cent of their imports from the United States and sent the United States 30 per cent of their exports.

Another important change affecting our trading relationship is also occurring -- a shift in Latin American development strategy from import substitution to export promotion. In the past, Latin America threw up tariff barriers against imports of certain products to protect infant industries. In many instances, high cost and inefficient industries were created behind these walls. However, this process is now at an end and attention turns to the export of manufactured goods as an important next step in economic growth and development. Naturally, labor-intensive industries, in which developing countries have a competitive advantage, have received first attention.

For example, textile imports to the United States from Mexico, Peru, El Salvador, Nicaragua, Brazil and Haiti, and shoe imports from Brazil and Argentina have increased significantly in recent years. The new Latin American strategy of export promotion depends, of course, on the willingness of other nations to import these products.

The House of Representatives has passed, and the Senate is now considering the Trade Reform Act, which includes authority for the conduct of the next round of trade negotiations. One section of this legislation would allow the removal of tariffs on most manufactured goods from the lesser developed countries. Some sensitive items, such as textiles and footwear would not be included. The Latin American countries are very interested in the progress of this legislation and clearly want a preference for their manufactured goods. Some of them have expressed interest in a special U.S. preference arrangement for them. We believe, however, that our best interests and theirs would be better served by a world-wide generalized preference scheme in a liberalized trading system.

I already have mentioned the energy problem and suggested that the supply of other critical raw materials such as bauxite, which we get from Jamaica and Surinam, may come into question. From Mexico we get strontium, flourine and cadmium; from Peru copper, tellurium, silver and bismuth; from Bolivia tin and antimony, and from Venezuela iron ore as well as petroleum. In upcoming negotiations the Latin Americans will, I think, link assured access to petroleum and the other raw materials with our willingness to permit the entry of their manufactured goods into our markets.

Let me briefly touch on the question of U.S. private investment in Latin America. In 1972, the book value of holdings was $16, 644 million. Much of it is concentrated in specific countries and economic sectors. Four countries -- Venezuela, Brazil, Mexico and Argentina -- accounted for more than 60 per cent of the total. Overall, the manufacturing sector in 1972 accounted for 33.4 per cent of total U.S. investment in the region, compared to 18.3 per cent in 1960. In Mexico and Brazil, this sectoral concentration is particularly high, reaching 70 per cent.

In current circumstances of radical change, there are large possibilities for the disruption of regular patterns of trade and investment. The question of international liquidity has come again to the fore. Where will the industrialized oil user countries and, for that matter, non-OPEC developing countries, find the additional money needed to pay the higher prices for oil? How will the oil-producing countries use the additional resources they gain? We now have some parts of the answers to these two questions as to where excess funds have been channelled this year. The way in which they are answered fully will affect also the lending roles of the international development banks, including the Inter-American Bank.

These are matters which naturally pose a challenge for the Bank in the future, and the Bank is already beginning to focus on them. Latin America, which is developing rapidly, still needs the catalytic push of the Bank and it will continue to need it in the future. As a whole, Latin America's growth in statistical terms has been amazing, thanks to the performance of such key countries as Brazil.

At the Bank we take pride in having been so closely allied to that effort. Since the Bank made its first loan for a water supply project in Arequipa, Peru, back in February 1961, it has approved more than $6.4 billion in some 750 loans, of both a hard and a soft nature, to support the region's economic and social growth. Its membership has increased to 24 countries with the addition of three newly emerging independent countries of the Caribbean -- Barbados, Jamaica and Trinidad and Tobago -- and, in 1972, of Canada. We now look to Western Europe and Japan for membership and new inputs of financial resources to supplement what has been provided by the United States and Canada. At the same time, the United States hopes to continue its level of support.

Total resources now amount to more than $10.3 billion, thanks to the timely support the Bank has received in replenishing its resources from its own membership, with the primary contributor being the United States, as well as from non-member countries in Europe and Japan, who have given the Bank access to their capital markets. With the conditions prevailing in the world today, that support is becoming increasingly difficult to obtain, and in the future we will need to exert our utmost efforts to ensure that we have a pipeline of resources that will enable us to fill the role assigned to us of acting as a development bridge for the region.

A brief analysis shows that in 13 years of lending to both the public and private sectors in Latin America, the Bank has financed in the critically important field of agriculture the improvement of almost 7.5 million acres of land and has ultimately authorized approximately 1 million loans to small and intermediate farmers, including scores of rural cooperatives, for a total of more than $1 billion dollars through intermediate lending agencies.

In the field of transportation and communication, the Bank has financed the construction or improvement of nearly 12,000 miles of road networks, more than 1,500 miles of gas pipelines, the modernization of 8 major ports and the installation of telecommunications systems in 7 countries.

In the electric power field, Bank loans have helped to install electric plants with a total capacity of 2.7 million kilowatts, to construct more than 15,000 miles of transmission and distribution lines and to improve electrical services in 460 communities.

Bank financing is helping to build or improve more than 70 large industrial plants -- of which 47 are now in operation. Likewise, Bank credits channelled to small- and medium-size private entrepreneurs in Latin America through the region's development banks are helping to construct an additional 5,100 smaller private industrial enterprises.

Our financing of water supply and sewage systems has benefited urban and rural areas with a population of approximately 55 million people. More than 900,000 students are benefiting from the Bank's operations in advanced, vocational and technical education.

In export financing, the Bank has authorized some $100 million to help finance intraregional exports of capital goods. And, in the field

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of preinvestment, 240 studies have been financed directly by the Bank and another 360 through the resources lent by the Bank to various national planning agencies.

I have sought to indicate in these remarks that Latin America is making extraordinary progress in development, thanks substantially to its own efforts, but also to the catalytic support which the region has received from such agencies as the Inter-American Bank. I have also sought to point out the strong interdependence that exists between Latin America and the United States, brought home to us so starkly by the energy situation in which we find ourselves.

In closing, I would like to indicate how important we at the Bank and in the United States' Government view the support which you, the public, give to the Inter-American Development Bank. In the years ahead, the programs of the Bank will require even further support from the business community and from civic organizations like the Rotary as well as from our elected representatives.

I would like to pay tribute, if I may, to the Vermont Congressional delegation who have been so supportive of this institution's efforts in the Hemisphere. Congressman Mallary, Senator Stafford and the Dean of the Senate, Senator George Aiken have all been most helpful.

It is difficult, when speaking of Latin America, to mention a man who has made a more significant contribution to understanding in the Hemisphere than Senator Aiken. His knowledge and wisdom of Latin American affairs is great. He is known and respected throughout the Hemisphere. Senator Aiken was indeed one of the earliest supporters of the Inter-American Development Bank, having had a very significant role in advocating its establishment in 1959. He has counseled often with our Bank's President Antonio Ortiz Mena, the former Finance Minister of Mexico. When I first came to Washington, and was approaching the day for my confirmation hearing before the Senate Foreign Relations Committee, I called on Senator Aiken in his office. I was welcomed by Mrs. Lola Aiken and received warmly by "the Governor." For some years Latin America has been my "beat," first as a professor of Latin American affairs and then as a Vice President of the Morgan Guaranty Bank in charge of Latin America. I listened for more than twenty minutes while Senator Aiken spoke of his numerous friendships, his experiences in Latin America, and his hopes for future cooperation between this country and the peoples of Latin America. This was a most heartening experience for me personally.

We shall miss his wise and kindly leadership in the Senate. Fortunately, I understand that they are not giving up their residence in Washington, and I look forward to many opportunities to ask his guidance and advice in the future.

I am now available for any questions you might have.

Thank you for your attention.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
WASHINGTON, D.C. 20503

FOR RELEASE ON DELIVERY

Remarks by Albert Rees, Director
Council on Wage and Price Stability
at the
Annual Convention of the New Jersey Education Association
Atlantic City, New Jersey

November 7, 1974 - 10:00 a.m.

When I agreed to meet with you today, I was still a professor at Princeton, with no thought that I would be going anywhere else. When I knew that I was about to become Director of the Council on Wage and Price Stability I got in touch with Dr. Reilly and Dr. Hipp and asked, "Do you still want me?" They very kindly said "yes" and here I am. Fortunately, the things I have to say in my new role are the same things I would have said in my old one.

I want to talk today about how inflation affects us as teachers and what we can do about it. You will, I hope, forgive me if I still refer to myself as a teacher - I have been a teacher for twenty-five years, and a government official for about five weeks.

Inflation is a substantial and continuous rise in the general level of prices. It is generally measured by a price index, such as the Consumer Price Index or CPI, though there were inflations long before there were price indexes. Sometimes one hears inflation defined in other ways, such as "too much money chasing too few goods," but that is not so much a definition as a first attempt at an explanation.

The causes of inflation are not always the same, nor always simple. The great hyperinflations of the past, such as the German hyperinflation of the early 1920's, which gave us the billion mark postage stamp, were caused almost entirely by excessive quantities of money. A too rapid growth of the money supply is also an important cause of milder inflations, and unfortunately a burst of rapid monetary growth can continue to raise the price level even after the growth in the money supply has returned to more normal rates.

Persistent government deficits are also a cause of inflation, though economists disagree as to whether they operate directly on the price level, or indirectly through encouraging expansion of the money supply to finance the deficits. The budget of the Federal government has been in deficit in all but one of the last fourteen years, and this is undoubtedly an important source of our present problems.

Some economists believe that collective bargaining is a cause of inflation, and I share that view to a limited degree. The spread of unionism and collective bargaining to new areas of the economy, such as municipal government, public schools, universities, and nonprofit hospitals has probably contributed to a rise in local taxes, college tuition, and hospital fees. However, this contribution is more relevant to the gradual inflation of the past decade than to the rapid inflation of the past two years.

Increases in the profits of corporations which dominate markets and whose power is exerted intermittently can contribute to inflation, and seems to have done so since wage and price controls expired at the end of April. However, those who blame inflation largely on monopoly power are taking a view that can be kindly described as simplistic.

The United States devalued the dollar relative to other currencies in August 1971 and again in early 1973. In my opinion, these devaluations were absolutely necessary to check our massive balance of payments deficits and to protect the jobs of millions of American workers in a way that would not seriously impair the efficiency of our economy. However, devaluation lowers the foreign price of the things we sell to other countries, and raises the dollar price of the things we buy. It contributes to inflation both by encouraging exports and by discouraging imports.

Finally, shortages of commodities can contribute to inflation - this is the "too few goods" that the money chases. We have had serious crop losses from floods, droughts, hurricanes, and early frost and these have been heavily responsible for sharp increases in the price of food. Such events would not contribute to inflation if the quantity of money was adjusted downward to offset them and if other prices were flexible downward, but such is not the case. However, we should not be too quick to blame all our troubles on Mother Nature - there have always been floods and droughts and hurricanes, and they have not always caused inflation.

Let us now ask who gains and who loses from inflation. The simplest set of answers deals with borrowers and lenders. If I borrow dollars with high purchasing power and repay my contractual debt in the same number of dollars whose value is eroded by inflation, I am a gainer and the lender is a loser. That is why during an inflation everyone wants to borrow and no one wants to lend, and as a result interest rates rise. Indeed, high interest rates are much more a result of inflation than a cause.

The second predictable effect of inflation is on income distribution. Those receiving fixed money incomes lose, including pensioners, bondholders, and those who receive rents fixed under long term leases. The people who make these payments gain correspondingly. The effect of inflation on wage earners is less predictable. In the past year, wages on average have not quite kept up with inflation.

Because the recent rise in food prices has been especially large, the effect of our current inflation has been especially severe on the poor. A poor family spends more than a third of its budget on food, while a middle income family spends somewhat less than a fourth.

It is very hazardous to try to predict the future course of inflation, and many good economists who have tried to do so in the past have been proved wrong by events. Nevertheless, two predictions seem reasonably safe. One is that a year from now inflation will still be a serious problem. The second is that it will not be nearly as serious then as it is now. There are two main reasons for believing that inflation will still be with us at the end of 1975. The first is poor corn and soybean crops, which will contribute to new increases in the price of meat and poultry.

The second is a pattern of wage settlements in excess of productivity increases, which ensures a further rise in labor costs per unit of output.

The reasons for expecting the rate of inflation to decrease are equally strong. First, there has been a considerable decline in the prices of raw materials other than foodstuffs, which should eventually be reflected in the prices of finished goods. Second, the fact that wage increases have been smaller than price increases leaves room for the rate of price increases to wind down. Last, but by no means least, there has been a very pronounced softening of the economy in the past year, as shown by rising unemployment and lower rates of utilization of capacity. While in many respects this is unhappy news, it will almost certainly help to restrain price increases. I would look for the effects of weaker aggregate demand to show themselves at first, not so much in the prices marked on the labels, but in more and bigger sales and more bargains for the shopper who is willing to hunt for them.

I have been asked to discuss how teachers can protect themselves against inflation, and unfortunately that is not an easy question to answer. Some of the assets that were supposed to be good hedges or protections against inflation, such as common stocks, have done very badly indeed in the past few years. It is nevertheless still true that over long periods of time common stocks have increased in value more than prices have gone up. Perhaps the asset that has increased most in value in recent years is the single family home, though this is not true in some New Jersey cities where property tax rates are exceptionally high. As home mortgages become available on better terms, buying one's own home may be the best protection against inflation available to most middle income families. Finally, if one wants to hold assets whose dollar value is fixed, it pays to hunt for good rates of interest. Many thrift institutions are now paying high rates for long-term savings, and such rates may not be available a year from now.

The prospects for teachers at the bargaining table in the near future are not as good as they were a few years ago. Voters are resisting proposals that would increase taxes; foundations are cutting their gifts to educational institutions; and declining enrollments, creeping up through the age structure of students, are reducing the demand for teachers. It will probably not be possible to do much more through collective bargaining than to prevent the present level of real earnings from being eroded.

One thing we can do to help control inflation is to be informed consumers and to teach our students to be informed consumers. Many years ago the late Wesley Clair Mitchell, a Columbia University professor who was a major contributor to the development of price index numbers, wrote an essay entitled "The Backward Art of Spending Money." That essay now seems archaic in its details, but the central idea conveyed by the title is as true as ever. We spend far more time and effort defending our interests as producers than we spend defending our interests as consumers. My agency gets letters from consumers asking "why is the price of item X higher at store A than at store B around the corner." I don't know the reason for that situation, but I do know what one should do about it. First, one should point out the difference to the manager of store A. Second, one should buy the item at the store where it is cheaper.

One of the most certain ways of saving substantial amounts of money is to buy the so-called house brands, the labels of the supermarket chains, department stores, and drug store chains, rather than nationally advertised brands. If you feel that the national brand is worth the difference in price, of course you should continue to buy it. And if you say, "But I already know about house brands," let me ask "Do your students know it?"

When it comes to such difficult subjects as buying insurance, buying cars, or buying houses, I am not at all sure that our educational system is doing what it should to teach students how to get the value they pay for.

There may also be cases in which we want to advise students to use less of products whose price has risen sharply. Certainly one would not advise school children to drink less milk no matter what the price. But when the price of sugar triples, as it has in the past year, I would not hesitate to advise students to eat less candy, to avoid presweetened cereals, and to drink less soft drinks. Such behavior will not only help to bring down the price of sugar, but it will also be good for their teeth. If they will substitute fruits for sweets it will further improve their diet.

Of course, I do not mean that this is all that should be done about the high price of sugar. Other, more direct measures are also under way.

We can also help to fight inflation as citizens by working to defeat laws that raise costs and prices unless they create social benefits that are clearly in excess of their costs. That is part of what I am trying to do in Washington, and I hope that I can count on your help.

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WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR RELEASE AT 8:00 P.M., CST

ADDRESS BY WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE ECONOMIC CLUB OF CHICAGO
CHICAGO, ILLINOIS, WEDNESDAY, NOVEMBER 6, 1974

Good evening. It is a privilege to speak to such a prestigious audience and to bring you the warmest greetings of the President of the United States.

With most of the election results now official, I know that many of you are asking tonight about the impact of yesterday's voting on the future of the country. Since I am not a politician -- and if I were, I'm not sure I would admit it tonight -- I will spare you a political analysis of the results. I would, however, like to touch briefly upon some of the questions that the elections have raised about future directions in economic policy.

I have read a considerable amount of speculation that once the elections were over, the Administration would abandon the economic proposals it submitted to the Congress four weeks ago.

Let me set the record straight: we are not backing down. We are not retreating from our positions. We will stand and fight for the President's economic program because we continue to believe it is in the best interests of all Americans. Nothing has happened in either the political or economic arenas to change our views.

I do not mean to imply that we are unwilling to compromise, especially on details. As a co-equal branch of the Government, the Congress bears an equal responsibility for helping us get into this mess and it must share equally in helping us get out. We must therefore work together to hammer out legislation. But within the Administration we remain committed to a policy of moderation and restraint -- a policy that still offers by far the best hope of curbing inflation and restoring a pattern of healthy, stable growth to our economy. The actions required will often be tough and unpopular, but we will work with the Congress as closely and cooperatively as possible in order to get the job done.

There has also been some speculation that when the Congress returns to Washington for the closing weeks of this session, it will deliberately drag its feet on economic legislation. Some Democrats, it is reported, want to delay important actions until next year when they will have larger, more comfortable majorities in both houses of the Congress.

I have too much respect for the Congress to believe such speculation. The Members of Congress know that our economic problems are not going to be solved until there is decisive action on Capitol Hill. The longer we wait, the worse those problems could become and the more that people will have to suffer.

Back in 1871, when Mrs. O'Leary's cow kicked over that lamp, there was a terrible fire here in Chicago. But think how much worse it would have been if the fire chief had said, "Sorry, Mr. Mayor, we aren't going to start fighting this fire until next Monday when we'll have some fresh recruits on hand. They're better fire-fighters than these fellows, so let's wait until then."

Inflation is not yet out of control, but it would be grossly irresponsible not to contain it as quickly as possible. I am sure that all members of Congress will want to act quickly, and I look forward to the opportunity to work with them in a concerted attack on our economic troubles.

If the Congress refuses to act in the next few weeks, we should recognize that position for what it is -- a conscious, deliberate decision to let inflation rage on.

Inflation: The Number One Domestic Problem

Inflation is our number one domestic problem in the United States. Prices are going up faster than at any time in our peacetime history, and if they continue at this pace, they will undermine the very foundations upon which this nation is built. This is not to say that our problems are of only one dimension. All of you are aware that we are also confronted with a growing sluggishness in our economy. In my judgment, the current economic malaise will eventually be recorded as a recession, but I would urge anyone who calls it a recession to use that term most advisedly. This is not a recession in the classic sense, nor does it call for the classic remedies. Instead, we must recognize that much of the sluggishness in the economy was touched off by inflation. Therefore, the way to cure our economic troubles is to concentrate our attack not on the recessionary aspects of the economy but on the real enemy, inflation.

The extent to which inflation has caused the general slowdown in the economy is frequently overlooked. Yet it was inflation that dried up the supply of mortgage money and thus sent the housing industry into a tailspin. And inflation was the force that crushed consumer confidence, causing the biggest reduction in consumer purchasing since World War II. Housing and consumer purchasing are now the two weakest sectors of the economy, and in both cases inflation is the culprit. Thus, inflation must now be the chief target of our economic policies.

In choosing our weapons, let us also be clear about the causes of inflation itself. Those causes can generally be placed in two categories: a series of special factors that unexpectedly hit the economy in the early 1970's, and another set of powerful, underlying forces that have been building up for more than a decade.

Among the special factors, the most critical has been the explosion in food prices. It was triggered by a drop in worldwide crop production in 1972 and the situation was then worsened by a series of misfortunes this year here at home -- namely, a wet spring, a dry summer and an early frost. As a result, consumer food prices have shot up over 30% in less than two years.

The food price explosion is however one of several factors. There has also been a quadrupling of oil prices during the past year, a factor whose importance is only now being fully realized. There was also a simultaneous economic boom among the industrialized nations in 1972 and 1973 which placed heavy pressures on the prices of all internationally traded commodities. And the inescapable and long-overdue devaluations of the dollar in 1971 and 1973 also served to make our products more attractive abroad and thus added another special burst of price pressures here at home. Further contributing were the accumulated distortions of three years of wage and price controls.

Fortunately, all of these special factors are now losing some of their impact and they are very unlikely to occur again. Economic and political constraints should even bring a reduction in oil prices. The question is no longer whether oil prices will come down but when they will come down.

Even as these special factors recede, however, the problem of inflation is still with us, as strong as ever. That is because we have had more than a decade of political decisions that have permitted, encouraged and even forced the demand for goods and services to outrun the productive capacity of our economy. Simply stated, we have increased Government spending faster than we have been willing to pay for it, and we have been willing to create more new money and credit than the economy could effectively absorb. As a result, fundamental inflationary forces have gathered enormous momentum and are now deeply embedded in our economic structure.

The monstrous growth of the Federal budget is a prime example of our troubles. It took 185 years for the budget to reach the $100 billion mark, nine more years to hit $200 billion, and only four more years to reach the $300 billion level. And in only one year of the last fourteen has the Government been able to balance its budget books. In the last 10 years alone, Federal deficits have reached a staggering total of $103 billion.

Yet even the unified budget, as huge as it is, seriously understates the full impact of the Federal Government on the financial markets. What it ignores is the ominous growth in "off-budget financing." A large volume of credit, as you know, is now guaranteed by Federal agencies -- to assist public and private housing, urban and rural development, transportation, health, education, small business and other activities. In recent fiscal years, total Federal and Federally assisted borrowings have grown to approximately one-half of all the funds raised through borrowings in the capital markets. It is important that we reverse this trend.

When the Federal budget runs a deficit year after year, especially during periods of high economic activity which we have enjoyed over the past decade, it becomes a major source of economic and financial instability. The huge Federal deficits of the 1960s and 1970s have added enormously to aggregate demand for goods and services, and have thus been directly responsible for upward pressures on the price level. Heavy borrowing by the Federal sector has also been an important contributing factor to the persistent rise in interest rates and to the strains that have developed in money and capital markets. Worse still, continuation of budget deficits has tended to undermine the confidence of the public in the capacity of our government to deal with inflation.

If the present inflationary problem is to be solved and interest rates brought down to reasonable levels, the Federal budget must be brought into better balance. This is the most important single step that could be taken to restore the confidence to people in their own and our nation's economic future.

In my own view, monetary policy has also been overly stimulative in the past decade and must be regarded as another culprit of our current troubles. Between 1955 and 1965, the money supply grew at a rate of about 2-1/2 percent a year, and we enjoyed a period of reasonable price stability. Since 1965, the annual rate of increase in the money supply has more than doubled to 6 percent, and it is no accident that price levels have skyrocketed.

It is less apparent but certainly no less true that the regulatory practices of the Government are also at fault. The blanket of rules and regulations woven together over the past 40 years is now so heavy that it is stifling the growth of our economy. Food and fuel policies are excellent examples, for both have discouraged full production. The so-called sacred cows of the Federal Government now pose a significant threat to our battle against inflation. I know they are powerful, and I know that the special interest groups will fight hard to save them, but this is a fight that we can neither avoid nor afford to lose.

What, then, is to be done?

-- First, we must sharply rein in Federal spending. President Ford asked the Congress to set a $300 billion spending limit on the 1975 budget before it went home for the elections; I am sad to observe that the Congress has not complied.

-- Second, we must enact new spending programs only if we are willing to pay for them. We have all heard the cheers for the President's proposals to liberalize the investment tax credit, to help the unemployed, and to prop up the housing industry, but what are we to make of the jeering at the proposal for a 5 percent surtax? It's time to be honest with the American people, to face up to the fact that if we vote for expensive new programs, we must pay for them -- either in regular taxes or in the form of the cruelest tax of them all -- inflation.

-- Third, the Federal Reserve must complement this fiscal discipline by keeping a reasonably close rein on the growth of money and credit.

-- Fourth, we must begin shifting far more of our resources into capital investments. It is startling to realize that between 1960 and 1973, the growth in productivity for the average American was the lowest for any major industrialized nation in the Western world. Our annual growth rate in productivity was only 3 percent, compared to 6 percent for the French and Germans and more than 10 percent for the Japanese. And the reason is very clear: During these same years, the United States was devoting less than one-fifth of its total output to capital investment -- one of the smallest percentages of any nation in the Western world. Productivity is the key to expanding our industrial base, and unless we reawaken to that fact, we are in for years of trouble.

Let me ask you here tonight: when are we going to halt the growth of Big Government? When are we going to show our concern that one-sixth of the working men and women in this country are now employed by government and more than 30 percent of our Gross National Product is consumed by government? When are we going to stop creating new government mechanisms that feed the bureaucracy but strangle free enterprise? It has certainly become apparent to me -- and I hope it is evident to you -- that we have more government than we need, more government than most people want, and certainly more government than we are willing to pay for.

Finding A Cure

One of the surest things that can be said about curbing inflation is that the process is unpopular. Inflation is like a wild night on the town: the first few drinks have a decidedly pleasant effect, but the hangover is hell.

The critical requirement now is to pursue a consistent policy of monetary and fiscal discipline. It is essential that we establish and maintain a moderate degree of slack in the economy for the foreseeable future. Of course, business sales and employment must both continue to grow. But there must be a small gap between capacity and the level of demand, so that the forces of competition can dampen inflationary pressures.

To a considerable degree, our anti-inflationary policies have already produced the margin of slack that is necessary. The first crucial step is thus behind us.

So far, however, the restraint has come mainly from the monetary side -- the Federal Reserve. Now we must redress this imbalance between monetary and fiscal policies by achieving greater control of the budget. More effective fiscal policies, halting the upward momentum of both regular Federal spending and off-budget financing, will allow the Federal Reserve to ease pressures in the credit markets. Interest rates can then ease off and funds can again flow into the housing industry.

Furthermore, we must firmly resist pressures to overheat the economy again. We can do that by enacting effective programs to cushion the impact of inflation where it strikes with disproportionate force -- programs such as low-income tax relief, extended unemployment benefits and expanded public employment. These programs are not only humane but they ensure that the burdens of inflation are borne equally. Only in this way can we win broad and durable support for the long-term struggle against inflation.

The Ford economic program is just the right medicine because it is carefully constructed to meet all of these objectives. It would curb the growth rate of the Federal budget, but it would also cushion the effects of its policies for those who bear a disporportionate burden of the fight against inflation. It would require a new measure of discipline from those of us who can afford it by temporarily raising our taxes in order to pay for new programs. And it would alleviate commodity shortages in areas such as food and fuel through conservation and through legislation that would expand production.

Furthermore, the Ford economic program would provide new incentives for business to make long-term investments -- investments that will create new jobs and new products at lower prices. I cannot overemphasize the importance of this final point. It is startling to realize and well worth repeating that between 1960 and 1973 the growth in productivity for the average American worker was lower than anywhere else in the industrialized countries of the West. Why? Because we devoted less of our total output to capital investment than almost anywhere else. It is essential that this country begin encouraging a shift away from consumption and toward greater savings and investment. That is the sure road to growth and prosperity for our free enterprise system.

Anyone who thinks this Ford program is too weak is misjudging the willingness of the Congress to come even this far. It will be tough to enact this program and it will be tough to stick to it. Sometimes resisting the easy thing, the thing that is seemingly attractive, is the most difficult thing to do, and that is the course that the President has chosen.

I fear that when the Congress returns to Washington, there will be growing political pressures to abandon our policies of moderation in favor of greater stimulation. Repeatedly in the past, we have succumbed to those pressures because that was the popular, easy way out. But the gains were only illusory: easy money and expanded Federal spending led to higher prices, and as inflation became a way of life, prices climbed faster and faster. Today the rate of inflation is so high that it could tear apart the very fabric of our society. For once, let us stand firm and attack the causes of inflation instead of its results.

If we succumb once again, the pressures for new wage and price controls will be irresistible, and those controls are certain to be more stultifying and costly than before. When will we learn that controls only produce great inequities, distortions, shortages, unemployment, and ultimately more inflation? When will we unleash our free enterprise system, letting it continue its earlier progress toward making Americans the most prosperous people in the history of man?

It cannot be said often enough that centralizing the American economy is the surest means we have of killing the goose that lays the golden egg. And make no mistake: the free enterprise system in American <u>is</u> in grave danger today.

George Will, a columnist, wrote a remarkably perceptive piece recently in which he argued that we are "meandering mindlessly toward a serfdom that is no less real for being bland." The growing power of the central government he said, "affects society the way hemlock affected Socrates: Numbing begins in the extremities and moves inexorably unti it extinguishes the spark of life." Unless warned, "A society, unlike Socrates, does not know it is dying until it is too weak to care."

I strenuously disagree with the doomsayers who say that the Ameircan economy is on the verge of collapse, but I do believe that if we want to preserve the free enterprise system in this country, we're going to have to fight for it. That's what this battle against inflation is all about. It will not be easy. Patience and self-sacrifice will be required. But it can be done if all of us -- especially men women like you, the leaders of our society -- work at it together.

Thank you.

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

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FOR IMMEDIATE RELEASE November 7, 1974

RESULTS OF AUCTION OF 7-YEAR TREASURY NOTES

The Treasury has accepted $1.75 billion of the $3.3 billion of tenders received from the public for the 7-year notes auctioned today. The range of accepted competitive bids was as follows:

Lowest yield	7.75%
Highest yield	7.86%
Average yield	7.82%

The interest rate on the notes will be 7-3/4%. At the 7-3/4% rate, the above yields result in the following prices:

Low-yield price	100.000
High-yield price	99.416
Average-yield price	99.628

The $1.75 billion of accepted tenders includes 8 % of the amount of notes bid for at the highest yield, and $0.2 billion of noncompetitive tenders accepted at the average yield.

In addition, $0.9 billion of the notes were allotted to Federal Reserve Banks and Government accounts at the average yield, in exchange for securities maturing November 15.

Department of the TREASURY
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20226
NEWS
TELEPHONE 634-5248
1789

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FOR IMMEDIATE RELEASE
Wednesday, November 13

KENTUCKY JOINS REVENUE SHARING AUDIT PROGRAM

The State of Kentucky and the Treasury Department's Office of Revenue Sharing today signed a cooperative audit agreement. Under the agreement, Kentucky will audit revenue sharing expenditures of its state agencies and 118 counties using audit standards and procedures set forth by the Office of Revenue Sharing.

The pact was signed by Ms. Mary Louise Foust, Auditor of Public Accounts for the State of Kentucky and Graham W. Watt, Director of the Office of Revenue Sharing in a ceremony at the Office of Revenue Sharing this morning.

Similar agreements have been concluded with New York, Michigan, Tennessee, Florida, Minnesota, Illinois, Missouri, Oregon, Wyoming, North Dakota, South Dakota, Arizona and Arkansas. More than 7700 local governments are now covered in the Office of Revenue Sharing's Cooperative State Audit Program, a program designed to achieve audit coverage of revenue sharing recipients at least cost but with greatest effectiveness.

-More-

Through its Cooperative State Audit Program, the Office of Revenue Sharing is enlisting the assistance of state audit agencies to assure compliance with financial practice, civil rights and other provisions of revenue sharing law. In addition, the Office of Revenue Sharing will perform audits of recipient governments in all states, randomly selected.

The Office of Revenue Sharing has distributed more than $15 billion to nearly 39,000 state and local governments since December 1972. The State and Local Fiscal Assistance Act of 1972 which established the general revenue sharing program authorizes distribution of $30.2 billion dollars to states and local units of general government over a five year period ending with December, 1976.

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

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FOR IMMEDIATE RELEASE November 8, 1974

RESULTS OF TREASURY BOND AUCTION

The Treasury has accepted $ 600 million of the $1,813 million of tenders received from the public for the 24-1/2 year 8-1/2% bonds auctioned today. The range of accepted competitive bids was as follows:

	Price	Approximate Yield	
		To First Callable Date	To Maturity
High	103.50	8.14%	8.17%
Low	102.79	8.21%	8.23%
Average	103.04	8.19%	8.21%

The $ 600 million of accepted tenders includes 55% of the amount of bonds bid for at the low price, and $52 million of noncompetitive tenders accepted at the average price.

In addition, $338 million of the bonds were allotted to Federal Reserve Banks and Government accounts at the average price, in exchange for securities maturing November 15.

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

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FOR RELEASE 6:30 P.M. November 8, 1974

13-wk 26-wk
Last auction 7.880 7.857
To-day 7.604 7.552
Low since 10/21/74 7.524 7.398

EASURY'S WEEKLY BILL AUCTIONS

of 13-week Treasury bills and for $2.1 billion
th series to be issued on November 14, 1974,
serve Banks today. The details are as follows:

ek bills ebruary 13, 1975	:	26-week bills maturing May 15, 1975	
Equivalent Annual Rate	:	Price	Equivalent Annual Rate
7.560%	:	96.192 b/	7.532%
7.623%	:	96.173	7.570%
7.604% 1/	:	96.182	7.552% 1/

ng $5,200,000

000

for the 13-week bills were allotted 36%.
for the 26-week bills were allotted 9%.

ACCEPTED BY FEDERAL RESERVE DISTRICTS:

		Accepted		Applied For	Accepted
		$ 30,465,000	:	$ 32,285,000	$ 22,205,000
		2,245,030,000	:	3,031,225,000	1,787,820,000
		59,550,000	:	43,680,000	43,680,000
Cleveland	69,565,000	63,855,000	:	66,345,000	41,075,000
Richmond	63,640,000	42,070,000	:	49,095,000	20,645,000
Atlanta	48,815,000	38,160,000	:	36,600,000	20,525,000
Chicago	366,980,000	117,400,000	:	249,305,000	70,805,000
St. Louis	48,490,000	25,490,000	:	46,760,000	21,060,000
Minneapolis	9,930,000	3,670,000	:	8,715,000	2,715,000
Kansas City	54,320,000	31,180,000	:	42,860,000	23,870,000
Dallas	44,150,000	28,750,000	:	32,450,000	16,850,000
San Francisco	196,190,000	115,600,000	:	213,690,000	29,340,000
TOTALS	$4,491,210,000	$2,801,220,000	c/	$3,853,010,000	$2,100,590,000 d/

c/ Includes $466,665,000 noncompetitive tenders accepted at average price.
d/ Includes $274,720,000 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 7.96% for the 26-week bills.

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

FOR RELEASE 6:30 P.M. November 8, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.8 billion of 13-week Treasury bills and for $2.1 billion of 26-week Treasury bills, both series to be issued on November 14, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 13, 1975			26-week bills maturing May 15, 1975		
	Price	Equivalent Annual Rate		Price	Equivalent Annual Rate	
High	98.089 a/	7.560%		96.192 b/	7.532%	
Low	98.073	7.623%		96.173	7.570%	
Average	98.078	7.604%	1/	96.182	7.552%	1/

a/ Excepting 2 tenders totaling $5,200,000

b/ Excepting 1 tender of $20,000

Tenders at the low price for the 13-week bills were allotted 36%.
Tenders at the low price for the 26-week bills were allotted 9%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 44,250,000	$ 30,465,000	$ 32,285,000	$ 22,205,000
New York	3,484,815,000	2,245,030,000	3,031,225,000	1,787,820,000
Philadelphia	60,065,000	59,550,000	43,680,000	43,680,000
Cleveland	69,565,000	63,855,000	66,345,000	41,075,000
Richmond	63,640,000	42,070,000	49,095,000	20,645,000
Atlanta	48,815,000	38,160,000	36,600,000	20,525,000
Chicago	366,980,000	117,400,000	249,305,000	70,805,000
St. Louis	48,490,000	25,490,000	46,760,000	21,060,000
Minneapolis	9,930,000	3,670,000	8,715,000	2,715,000
Kansas City	54,320,000	31,180,000	42,860,000	23,870,000
Dallas	44,150,000	28,750,000	32,450,000	16,850,000
San Francisco	196,190,000	115,600,000	213,690,000	29,340,000
TOTALS	$4,491,210,000	$2,801,220,000 c/	$3,853,010,000	$2,100,590,000 d/

c/ Includes $466,665,000 noncompetitive tenders accepted at average price.

d/ Includes $274,720,000 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 7.96% for the 26-week bills.

Department of the TREASURY NEWS

ASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE November 12, 1974

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $ 4,900,000,000 , or thereabouts, to be issued November 21, 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 August 22, 1974, and to mature February 20, 1975 (CUSIP No. 912793 VW3), originally issued in the amount of $2,001,830,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,100,000,000, or thereabouts, to be dated November 21, 1974, and to mature May 22, 1975 (CUSIP No. 912793 WK8).

The bills will be issued for cash and in exchange for Treasury bills maturing November 21, 1974, outstanding in the amount of $4,708,580,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,597,285,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, 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 one-thirty p.m., Eastern Standard time, Monday, November 18, 1974. Tenders will not be received at the Department of the Treasury, 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.

Banking institutions and dealers who make primary markets in Government

(OVER)

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.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. 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 or Branch on November 21, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing November 21, 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 bills (other than life insurance companies) issued hereunder must include in his Federal 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.

Department of the Treasury 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.

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH October 31, 1974

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

DESCRIPTION	AMOUNT ISSUED[1]	AMOUNT REDEEMED[1]	AMOUNT OUTSTANDING[2]	% OUTSTANDING OF AMOUNT ISSUED
MATURED				
Series A-1935 thru D-1941	5003	4999	4	.08
Series F and G-1941 thru 1952	29521	29501	20	.07
Series J and K-1952 thru 1957	3754	3748	5	.13
UNMATURED				
Series E[3]:				
1941	1936	1758	177	9.14
1942	8548	7746	801	9.37
1943	13748	12474	1274	9.27
1944	16050	14493	1557	9.70
1945	12640	11280	1360	10.76
1946	5776	5007	769	13.31
1947	5515	4655	860	15.59
1948	5723	4756	966	16.68
1949	5686	4649	1036	18.22
1950	4995	4032	963	19.28
1951	4321	3488	833	19.28
1952	4534	3634	899	19.83
1953	5199	4094	1105	21.25
1954	5314	4125	1190	22.39
1955	5537	4260	1277	23.06
1956	5351	4089	1262	23.58
1957	5051	3816	1235	24.45
1958	4945	3649	1296	26.21
1959	4647	3393	1254	26.98
1960	4679	3330	1349	28.83
1961	4781	3291	1490	31.17
1962	4661	3132	1529	32.80
1963	5252	3353	1899	36.16
1964	5118	3277	1841	35.97
1965	5007	3187	1820	36.35
1966	5429	3325	2103	38.73
1967	5372	3241	2131	39.67
1968	5058	3024	2033	40.19
1969	4771	2757	2014	42.21
1970	5008	2642	2367	47.26
1971	5774	2659	3115	53.95
1972	6373	2547	3826	60.03
1973	6302	2169	4133	65.58
1974	4091	701	3390	82.86
Unclassified	703	767	- 64	-
Total Series E	203894	148803	55091	27.02
Series H (1952 thru May, 1959)[3]	5485	4132	1353	24.67
H (June, 1959 thru 1974)	9939	3572	6366	64.05
Total Series H	15424	7704	7719	50.04
Total Series E and H	219318	156507	62810	28.53
All Series: Total matured	38278	38248	29	.07
All Series: Total unmatured	219316	156505	62811	28.61
All Series: Grand Total	257596	194755	62839	24.39

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[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

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MEMORANDUM FOR CORRESPONDENTS November 12, 1974

In response to questions, Jack F. Bennett, Under Secretary for Monetary Affairs, stated today that the U.S. Treasury position continues to be that the Congress would be requested to postpone the date of December 31, at which time private United States investment in gold bullion would be permitted, only if there were developments in foreign exchange or financial markets making such a change desirable. At the present time, however, such conditions do not exist, and the Treasury does not anticipate that conditions will necessitate such a request to the Congress.

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Department of the TREASURY

OFFICE OF REVENUE SHARING

WASHINGTON, D.C. 20226

NEWS

TELEPHONE 634-5248

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FOR IMMEDIATE RELEASE
Monday, November 18, 1974

1238 LOCAL GOVERNMENTS ADDED TO REVENUE SHARING AUDIT PROGRAM

State auditors from Louisiana, Mississippi, Nebraska, New Mexico and Washington formally agreed today to audit expenditures of general revenue sharing money in their State agencies and units of local government, using standards established by the U.S. Treasury Department's Office of Revenue Sharing.

In a ceremony held at the Admiral Semmes Hotel in Mobile, Alabama this morning, Graham W. Watt, Director of the Office of Revenue Sharing, concluded separate agreements with representatives of the five states, as follows:

- Joseph H. Burris, Legislative Auditor, State of Louisiana: To perform audits of all State agencies and 62 Louisiana counties.

- W. Hamp King, State Auditor of Mississippi: To perform audits of all State agencies and 82 Mississippi counties.

- Ray A.C. Johnson, Auditor of Public Accounts, State of Nebraska: To perform audits of all State agencies and 627 units of Nebraska local government.

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- Frank M. Olmstead, State Auditor of New Mexico:
  To perform audits of all State agencies and
  123 units of New Mexico local government.

- Robert V. Graham, State Auditor of Washington:
  To perform audits of all State agencies and
  344 units of Washington local government.

Today's ceremony was held in conjunction with the annual meeting of the National Association of State Auditors, Comptrollers and Treasurers.

In executing the agreements, the States involved joined the Office of Revenue Sharing's Cooperative State Audit Program. The program is designed to enlist the assistance and utilize the capabilities of state audit agencies in assuring compliance with financial practice, civil rights and other provisions of revenue sharing law.

Services already being performed by state audit agencies are bei extended to cover revenue sharing audit requirements. In addition, since the audits will be performed in accordance with the Office of Revenue Sharing's "Audit Guide", state auditors will determine compliance with Equal Employment Opportunity Commission reporting requirements. Where a state auditor finds a recipient government to be involved in a current civil rights investigation, information regarding the matter will be noted. Reports indicating noncompliance

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with civil rights or other provisions of revenue sharing law will be referred to the Office of Revenue Sharing for appropriate action.

"Participation by the five states that have concluded agreements with us today brings to more than 9000 the number of local governments now covered by our Cooperative State Audit Program," Graham Watt announced. "The program means a saving of time and money, since the Federal government will not be duplicating an audit system already in place," he said. "In addition, the work performed will be of better quality, since the auditors are already familiar with the laws and accounting procedures applicable in their own states."

Nineteen states have concluded cooperative audit agreements with the Office of Revenue Sharing to date. In addition to the five states that joined the program today, the following states have concluded comparable agreements: New York, Michigan, Tennessee, Florida, Minnesota, Missouri, Illinois, Oregon, Wyoming, Arizona, North Dakota, South Dakota, Arkansas and Kentucky.

In addition to the Cooperative State Audit Program, the Office of Revenue Sharing will be performing its own audits on a random basis and investigating allegations of noncompliance with revenue sharing law, wherever and whenever they may occur.

The Office of Revenue Sharing has distributed $15.8 billion to nearly 39,000 states and local governments since December 1972. The State and Local Fiscal Assistance Act of 1972 which established the general revenue sharing program authorizes the distribution of $30.2 billion to states, counties, cities, towns, townships, Indian tribes and Alaskan native villages over a five-year period that ends with December 1976.

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Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041
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FOR RELEASE UPON DELIVERY, NOVEMBER 14, 12 NOON EST

REMARKS BY DAVID MOSSO
DEPUTY FISCAL ASSISTANT SECRETARY
DEPARTMENT OF THE TREASURY
BEFORE THE UNITED STATES LEAGUE OF SAVINGS ASSOCIATIONS
ON TREASURY'S DIRECT DEPOSIT PROGRAM
THURSDAY, NOVEMBER 14, 1974
SAN FRANCISCO, CALIFORNIA

I am very glad to be here this morning and to take part in your 82nd Annual Convention. My subject, the Treasury's program for direct deposit of Federal benefit payments in financial organizations, is one that may not impact your operations to a large extent in the very near future; but it is one which has significant longer-range implications.

Many of you have heard something about the direct deposit program, either from Treasury press releases and meetings of your representatives with Treasury systems people, or through articles in your Association publications. In its basic form, the program embraces any method of making payments by credit to a payee's account in a bank or thrift institution rather than by delivery of a check or cash to the payee personally. Direct deposit is not synonymous with electronic funds transfer, but electronic transfer is the ultimate method on our present horizon. There are several intervening steps to be taken, however, before we get that far.

The concept of direct deposits is not new, of course. In the Federal Government it goes back more than 15 years and is now used for over 20 million Federal salary payments annually, principally by means of composite checks accompanied by payee-account listings. In 1972, the Treasury supported legislation to extend this option to the large-volume monthly payments under Federal benefit programs, such as social security, veterans, civil service retirement and the new supplemental security income benefit program which has been administered by the Federal Government since the beginning of this year.

Following passage of the legislation, the Treasury and the Social Security Administration agreed to develop an optional direct deposit-electronic funds transfer program for social security and supplemental security income benefits. The program is being developed in cooperation with the Federal Reserve System, financial associations such as your own, and the concerned Federal regulatory agencies.

It will be implemented in three stages, beginning this month, and will culminate in a system for distribution of funds via electronic transfers of payment data. Participation in the program will be entirely voluntary for both the financial organizations and the beneficiaries involved.

The principal objectives of the program may be stated succinctly:

-- To prevent the loss, theft and forgery of checks,
-- To turn the tide of paper that is choking the financial system and the mails,
-- To reduce costs borne by the social security trust funds or by the general taxpayer.

The need is clear. Since 1961, the monthly volume of checks issued for Federal benefit programs has more than doubled -- now amounting to over 40 million payments monthly, one-half billion payments a year. Social security annuitants alone number 27 million, and that figure is growing at a rate of over one million net additions per year. The dollar total for social security benefits and supplemental security income benefits alone is now over $60 billion a year.

As you might expect, there is a more than proportionate increase in the number of check claims we process as the volume of these benefit payments goes up. Specifically, the incidence of loss and forgery of Treasury checks has increased over 60 percent in the last five years. Last year alone we handled 800,000 claims for lost or stolen checks, over 50,000 involving forgeries.

In recent years we have found that check thefts are often a product of organized criminal elements, resulting in mass losses of checks. But no matter how these losses occur, the result is always hardship and inconvenience for the payees, losses for the financial organizations and increased costs for the Treasury.

During Phase I of the program, social security and supplemental security income beneficiaries residing in Georgia were given the option, at the beginning of this month, to enroll in the program and to have their monthly checks sent to a financial organization of their choice for credit to their accounts.

In April 1975, beneficiaries residing in Florida will be given the option to enroll. Beginning in July 1975, the option will be extended to beneficiaries in the rest of the United States. During this initial period, when a person chooses the direct deposit method, an individual check will be drawn in the beneficiary's name and mailed to the financial organization. The financial orgnaization will negotiate the check under a power-of-attorney procedure.

As a test, half of the Georgia beneficiaries were sent the enrollment forms with their checks and half were told that the forms are available at their district social security office or their financial organization. The method that is most effective in producing responses from beneficiaries will be used in the Florida test in April.

During the pilot phase of the program, it will be necessary for participating financial organizations to forward certain communications from the Social Security Administration to beneficiaries. These are program-information inserts that are now enclosed with checks going to home addresses, and will continue to be enclosed with checks going to financial organization addresses. This forwarding procedure should only be required until September 1975 when Phase II of the program begins. At this point the Social Security Administration should have the capability for maintaining a dual address file for each payee and for sending informational material directly to the beneficiary's home address. At about this same time, we will begin making payments with checks drawn in the financial organization's name rather than the payee's name.

Phase III of the program will involve distribution of payments by electronic transfer. For this phase a pilot project will again be conducted in the States of Georgia and Florida. This is scheduled for the latter half of 1975 or early 1976. After successful completion of the pilot project, the Treasury will begin conversion of direct deposit payments to a nationwide electronic funds transfer system.

The program elements up to the point of issuing a check will be the same as in Phase II, but instead of a check the payment will be made by magnetic tape. Our present plans are to furnish payment records on magnetic tape to Federal Reserve banks which will in turn make payment by charging the Treasury's general account and crediting the reserve accounts of Federal Reserve member banks with the total amount of payments to be made to them or their correspondent non-member financial organizations. The Federal Reserve Bank will provide individual records in paper, card, or electronic form, as required by the receiving financial organization, for use in posting beneficiaries' accounts.

Perhaps I should also address an aspect of the proposed EFT system which I know is of particular concern to the savings and loan industry. Although we ultimately may have several options for distributing the electronic information from our disbursing offices to financial organizations, at this point the only available system is through electronic communication channels of the Federal Reserve System.

We are fully aware of the concerns this poses for thrift institutions and other financial organizations that are not members of the Federal Reserve System. However, data transmission systems may evolve which will elmiminate the need for thrift insititutions to receive data via commercial banks.

This could occur, for example, if the Federal Reserve System altered its operations so as to provide information directly to thrift institutions, or if the thrift institutions themselves should develop data transmission systems independent of the Federal Reserve.

I should point out in this connection that recent Federal legislation established a 26-member Electronic Funds Transfer Commission to study and make recommendations to the President and the Congress on the policy and operating ramifications of public and private EFT systems.

The Commission has up to two years to make its final recommendations on administrative procedures and proposed legislation it feels are necessary to, among other things, preserve competition among financial institutions and other businesses utilizing such systems, to assure that Government regulation in such systems is kept to a minimum, and to assure protection of privacy for individuals. The Secretary of the Treasury, the Chairman of the Home Loan Bank Board, and the Chairman of the Board of

Governors of the Federal Reserve System will be members of the special Commission. We expect to be working closely with the Commission as we proceed with the development and installation of our direct deposit and electronic funds transfer system.

For obvious reasons, neither the Social Security Administration nor the Treasury Department may encourage beneficiaries to select a particular financial organization under the direct deposit program, but every reasonable effort will be made on our part to inform beneficiaries of the potential benefits of the direct deposit system. By September 1975, regular social security and supplemental security income beneficiaries in all 50 states will have received with their regular checks a stuffer outlining the features of direct deposit and the procedures for enrollment. As new beneficiaries apply for benefits at the social security district offices, they will be given information on the direct deposit program and will be offered the opportunity to enroll.

Financial organizations will be encouraged, of course, to promote the direct deposit program in accordance with the scheduled implementation plan for their geographical area, but we will need to place some restrictions on the promotional materials used to publicize the program. For example, promotional material cannot suggest that the program is not completely voluntary, or that the Federal Government favors a particular institution or class of institution, or imposes a fee for direct deposit service. All of this will be discussed in detail in information that will be provided to all participating financial organizations.

The direct deposit progam has significant benefits for the payee in terms of improved service. Chief among these will be the virtual elimination of check losses and forgeries. Even routine cases of non-receipt, where a check is simply lost in the mail, result in a two-to-three-week delay to the payee before a substitute check can be issued; and the more difficult forgery cases can cause delays of six weeks or more.

Another benefit is uninterrupted deposit service when the beneficiary is away from home for any period. Federal employees in the direct deposit program find this feature very desirable. Another problem we hear about from beneficiaries with some regularity is their inability to cash a Government check at a financial organization. This is because they do not have a checking or savings account, and since the establishment of a financial relationship between the payee and a financial organization is prerequisite to the direct deposit procedure, that problem will be eliminated.

That, of course, is a primary point to you in the financial industry. You can share in some of the benefits the system holds for the Treasury and the beneficiary. Increased system efficiency means fewer headaches for you in terms of forgeries and other losses affecting your depositors. But you measure success in large part by the ability to attract new depositors and the direct deposit system could help do that. I've already indicated the volume and dollar figures for the social security payment rolls.

As we bring other payment programs into the system, the monthly volume will reach well over 45 million payments and the dollar amount will be in the neighborhood of $90 to $100 billion per year. Not all annuitants and beneficiaries will take part in the program of course; but our goal for monthly electronic transfers for recurring payments is 40 percent of the total check issue volume by 1979.

In this whole undertaking, our number one goal is to improve disbursing service to beneficiaries by providing a more reliable and efficient system for paying benefits. The secondary goal is to reduce operating costs and lessen the impact of Treasury's disbursing operations on the financial community and the Postal Service.

The potential for reducing costs through the electronic funds transfer system is singularly significant. At present, it costs the Treasury four cents, not including postage, to issue, pay and reconcile a Treasury check. There is every reason to believe that electronic fund transfers can be accomplished for not more than two cents. Therefore, each payment accomplished by such means will reduce operating costs by two cents, 50 percent. In addition, it will eliminate entirely the cost of postage, ten cents, or an overall cost reduction of 85 percent per payment. Based on the best estimates available at this time of the extent to which recipients of recurring payments will choose to be paid at financial organizations, the time frame in which the Government can accomplish the systems revisions, and the point at which the capability will exist within the financial community to accept electronic fund transfers, we believe that about 3 million payments per month can be made by electronic transfer by 1977.

This volume is projected to reach 16 million payments monthly by the end of fiscal year 1979. The dollar aggregate for these payments will be in the neighborhood of $3.5 billion each month, over $40 billion a year. Therefore, the benefits to all of us are extremely significant, and for that reason we are fully committed to the program's success. To realize its maximum contribution will require dedication and zeal on our part, a willingness to cooperate on the part of the financial community and the payment agencies, and, above all, the confidence of the payees.

I want to thank you for your kind invitation to meet with you today and for your cooperation in the past in meeting with our staffs to discuss the systems elements of this forward-looking program. The Treasury has invested, and will continue to invest, a significant amount of resources to improve our payment systems. This is the boldest step we have taken so far, and we hope the most significant in terms of return on investment. We think that it will be; and that we will be able in a few years to look back on this period as a milestone in the improvement of financial delivery systems.

Thank you.

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Department of the TREASURY NEWS

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Corrected Copy

FOR RELEASE AT 11:00 A.M. November 12, 1974 ~~359~~

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ADDRESS BY WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE AMERICAN PETROLEUM INSTITUTE
NEW YORK CITY, NOVEMBER 12, 1974

I welcome this opportunity to address the American Petroleum Institute and to bring you the warmest greetings of the President of the United States.

All of you know that these are times of great challenge for America and for your industry. America must undertake a dramatic expansion of its energy base in order to regain its independence from foreign lands. Your industry must obtain more freedom and more capital than you have had in the past to carry out that expansion. Yet the greatest challenge of all is to convince a skeptical American public that these initiatives deserve their support. Educating and persuading the people will be a big job for both of us, and I urge you to give it highest priority during the coming year.

Before turning to your questions, I want to give you my own views on the major energy issues that confront us today.

U.S. Energy Policy: In Process of Change

The energy policy of the United States is now in the midst of a sweeping change. For many years, that policy was based upon the assumption that we would always be able to obtain all of the energy we wanted at bargain basement rates. Foreign oil was inexpensive and seemed limitless in quantity. It thus appeared to be good business and sound diplomacy to increase oil imports.

To our chagrin, however, we have now learned that our policy was a double-edged sword. It led directly to a growing dependence upon other nations and a decline in exploration and production within the United States. By the time of the embargo last year, foreign oil accounted for one-third of our petroleum consumption and our dependence on it was still surging upwards.

The legacy of that policy is now clear: we allowed our domestic energy base to erode so badly that we became highly vulnerable to foreign extortion. We should never have allowed our demands for energy to outstrip our own supplies as far as they did. If there is any good that has come from the embargo and the quadrupling of oil prices, it is certainly the fact that they awakened us to the danger before it was too late.

We are now paying an extraordinary price for our mistakes. In 1974 the United States will be dunned $25 billion for foreign oil, and our balance-of-payments deficit is likely to be $5 billion. More importantly, we are now caught in the worst peacetime inflation in our history -- inflation that has been significantly fueled by the higher cost of energy. As for the OPEC nations, their trade surplus for the current year will probably be in excess of $60 billion, and by 1980, if present trends continue, their total accumulation could exceed $500 billion. Imbalances of this magnitude cannot continue. They are neither economically nor politically tolerable.

There are some who believe that the Arabs now have the United States in a perilous, unbreakable hammerlock. I totally disagree, and I do so on the very solid grounds of American tradition and economic realism. A nation that can tame the wilderness, that has the most dynamic free marketplace in the history of man, that can lift the standard of living to heights never before known, and can place men on the moon -- that nation, if it allows its economic system real freedom, is not going to surrender to a small band of blackmailers.

In my meetings with the Arab leaders, I have tried to impress upon them that their oil policies are not only bad politics but bad economics. They should recognize that they are exerting enormous pressures on the United States and other countries to become more self-sufficient. Since 1972, significant discoveries of oil have been made in 26 areas of the world -- outside the OPEC bloc -- and countries such as Britain are now working to convert these deposits into major energy sources. As consuming nations expand production and cut back on consumption, the only way the present high price can be maintained, even on a temporary basis, is for producers to cut back production. The OPEC ministers know that every barrel sold today is worth more to them than every barrel left in the ground. Selling now and investing the money is simply more profitable than selling later. For example, to match the long run return on an investment made today at 8 percent per year, a barrel of today's ten dollar oil left in the ground until 1984 would have to bring more than $21.59 -- a price that is hopelessly unrealistic. Moreover, the Arab nations cannot expect to remain aloof from the dangers of social unrest and political instability that their policies are creating around the world.

In short, I believe that economic and political realities will eventually force oil prices to come down. As of the moment, oil diplomacy is particularly delicate and in the short run there may even be some further efforts to increase prices. But over the long run, the question is no longer <u>whether</u> oil prices will come down but <u>when</u> they will come down.

Energy Conservation Alone Is Not Enough

In the meantime, it is absolutely vital that the United States put its own house in order. Supply and demand must be brought into better balance here at home, so that foreign nations will never again be able to put an oil dagger to our throat.

Three weeks ago, the Ford Foundation published a major energy study that asserted the United States should solve its energy problems between now and 1985 by rigorous conservation policies and not through expanded production. By enacting a variety of mandatory conservation measures, they said, we could cut in half the growth rate for U.S. energy consumption and could thereby postpone for another 10 years "massive new commitments" to expanding our domestic supplies.

Few people in the Government today believe more strongly in the need for energy conservation than I do. The magnificent success of the American people last winter in cutting out wasteful and unnecessary uses of energy convinces me that the sound conservation measures must continue to play an important role in solving our energy problems.

Yet I think that it would be unwise to rely exclusively upon conservation measures as a means of solving our energy problems. For one thing, unless we expand our own resources, we are dooming ourselves to permanent dependence upon the OPEC nations for at least a third of our oil needs - a posture that will only encourage further mischief and price gouging on their part. Moreover, it seems likely that total reliance upon conservation would lead to massive new interventions by the government in the private sector. Heavy taxes would be placed on auto commuters, Detroit would be required to meet stiff new construction standards written in Washington, and government subsidy programs would have to be significantly enlarged. Inevitably, such conservation measures would create fresh distortions in the economy and imperil our changes for economic growth.

Let us have a sound conservation program but let us pursue it in tandem with an equally sound and vigorous program of greater energy production. Only with that kind of dual policy will we be able to regain our prosperity at home and freedom abroad.

Another important energy study is to be published later this afternoon, and I commend it to your attention. It is a thorough work completed under the direction of the Federal Energy Administration and entitled "Project Independence Report." It makes it clear that significant gains can be made through both conservation and the accelerated development of our vast resources. Many of our allies do not have our good fortune of being able to choose both options. We thus have a responsibility to ourselves and to the rest of the world to move forward on both fronts.

Three Essentials for Expanding Production

In order to accelerate domestic production, I would submit that we must concentrate our efforts in three areas:

(1) Greater Freedom from Government Regulation

First, the government must act decisively to free producers from Federal laws and regulations which discourage growth. For too many years the Government has posed major obstacles to the efficient market allocation in energy. We regulate the price and distribution of natural gas; we manipulate the pricing and distribution system in oil; we require lengthy and cumbersome processes for obtaining licenses and rate approvals; and we impose environmental restraints of questionable validity upon both the production and combustion of fossil fuel. As a lifetime advocate of competitive enterprise, I am convinced that each of you could do a better job if you were free from government controls. And I know that I can speak for President Ford in pledging to you that we will work toward creating greater freedom in the energy marketplace.

Because many of these government shackles have been imposed through the legislative process, we must obtain the support of the Congress to remove them. As you know, the Congress has not been favorably disposed to many of our energy initiatives, and over 15 critical pieces of energy legislation are now caught in a logjam on Capitol Hill. There is continuing hope, however, and we plan to work as closely with the Congress as possible to secure passage of these bills. Since you are thoroughly familiar with this legislation, I will touch upon only three measures of particular importance.

-- Perhaps the most significant energy bill before the Congress would deregulate the price of new natural gas. I disagree with those who say that deregulation will only raise prices and will not raise production. Our studies show that deregulation should bring a substantial increase in production, and that in the absence of deregulation, production is very likely to sag.

-- We also want to work with the Congress to encourage further development in the Naval Petroleum Reserves in California and Alaska.

-- And we would like to see the Congress move quickly on our amendments to the Clean Air Act. These amendments would permit greater reliance on coal without jeopardizing national health standards.

Within the Administration, we are also moving on a number of fronts where executive action is required. High on the agenda is our effort to sharply accelerate the Federal leasing of lands on the Outer Continental Shelf so that by 1975 we will be leasing 10 million acres a year -- five times as much as during 1974. Tomorrow the governors of several Atlantic and Pacific states affected by the offshore leasing will come to the White House, where leading members of the Administration will brief them on the current status of off-shore leasing. This meeting and others to follow could be an important stimulus for the off-shore leasing program. Secretary Morton and the Energy Resources Council are also working now on ways to increase secondary and tertiary production of oil, and we are pushing ahead with plans for bringing Alaskan gas to market. Each of these areas holds out bright hope for the future, and I can assure you that we remain committed to developing them fully.

(2) Expanding Capital Investments

A second key area where effective action must be taken to expand domestic production of energy is in capital investments. Probably no aspect of our energy problems is less understood or appreciated by the public.

There are a variety of estimates of how much capital investment will be needed, but by almost any reasonable measure, it will be immense. One study which I have previously cited in Congressional testimony indicates that the requirements for energy capital between now and 1985 will be in the range of $850 billion, and that study assumed a rate of inflation that is less than half of what we are now experiencing. Moreover, there will be many other needs for capital in the years ahead -- to improve our housing stock, to rebuild some of our basic industries, to provide new systems of transportation, and to clean up the environment. The total cost of pollution controls alone may reach $100 billion.

These programs will require such huge amounts of new investment that I think we need a complete shifting of priorities within the United States -- shifting away from policies that promote consumption toward policies that promote greater savings and investment. We must face up to the fact that between 1960 and 1973, the growth in productivity for the average American worker was the lowest of any major industrialized country in the Western world. And the reason is very clear: during those same years, the United States was devoting less than one-fifth of its total output to capital investment -- one of the smallest percentages of any nation in the Western world. Capital investment is thus the key to maintaining a strong industrial base in this country.

How and where the capital for the energy industry will be obtained in coming years is not yet clear, but it is apparent that one important source must be company profits. All sectors of our economy must have adequate profits in order to have both the incentive and the wherewithal for new investment. While no sector of the economy should reap unjust rewards, we must avoid regulation and legislation that is punitive of profits honestly earned. One of your greatest challenges is to help the American people understand that there is a difference between profiteering and profitmaking.

(3) Bringing Inflation Under Control

The third area where decisive action is essential in order to accelerate energy production is in bringing inflation under control.

Inflation is now our number one domestic problem, and its effects are felt everywhere. Inflation is the greatest enemy of savings and investment. George Gallup finds that Americans are more concerned about inflation than any other issue they have faced in a quarter of a century. Within the energy industry, it is certainly true that our hopes for expanding production will rest in large measure upon our ability to whip inflation. If the costs of materials used in drilling and completing wells continue to rise at the rate of 27 percent a year, as they have this year, then the costs of investments for expanding production will skyrocket.

What has caused this inflation and what can we do to conquer it?

There is no mystery about the causes of inflation, just as there is really no doubt about the cure. A large part of the current inflation is attributable to a series of economic shocks, mostly arising outside our own economy. The most obvious ones were the quadrupling of oil prices during the past year, serious crop setbacks in 1972 and 1974, and the distortions caused by wage and price controls. Less obvious were the inflationary effects of a simultaneous boom that took place in virtually all industrialized countries in the early 1970s. And the devaluations of the dollar in 1971 and 1973 -- while necessary because the dollar was overvalued -- made our domestic products more attractive to foreign buyers and thus increased demand pressures here at home. Fortunately, none of these special factors should occur again in the foreseeable future, and each is now dissipating in force.

Even as these special factors work their way through our economy, however, we should recognize that there are other, more ominous forces that have been building up for more than a decade and now underlie our entire pricing structure. These are the forces upon which we must center our attack.

One of them is the Federal budget. The enormous growth in Federal spending -- from $100 billion in 1961 to $200 billion in 1970 and $300 billion in 1974 -- has meant that in only one year of the past 14 has the Government been able to balance its books. Federal deficits over the last decade have come to a staggering total of $104 billion. Moreover, we have created a number of off-budget agencies which now draw heavily upon funds in private capital markets.

When the Federal budget runs a deficit year after year, especially during periods of high economic activity which we have enjoyed over the past decade, it becomes a major source of economic and financial instability. The huge Federal deficits of the 1960s and 1970s have added enormously to aggregate demands for goods and services, and have thus been directly responsible for upward pressures on the price level. Heavy borrowing by the Federal sector has also been an important contributing factor to the persistent rise in interest rates and to the strains that have developed in money and capital markets. Worse still, continuation of budget deficits has tended to undermine the confidence of the people in the capacity of our government to deal with inflation.

As one of my colleagues in the Government has said, we have a love-hate relationship with inflation. We hate inflation, but we love everything that causes it. We have been altogether too willing to engage in deficit financing and easy credit policies because they give us a fleeting sense of prosperity. We have been too ready to acquiesce to the special interest groups -- those who demanded higher wages, higher farm prices, and protection from cheap foreign goods -- because it was easier to join them than fight them. The private interest has been triumphing over the public interest, the short-term over the long-term, and the political over the economic. And today we're paying the price.

By now, it has become apparent to me and I hope that it is clear to you that we have more government than we need, more government than most people want, and certainly more government than we are willing to pay for.

To counter inflation effectively, then, I would urge that we pursue a consistent policy of moderation and restraint in our fiscal and monetary affairs. So far, the Federal Reserve has had to bear almost the sole burden of dampening inflation. Now we must redress that imbalance by reining in the growth of Federal spending. This means that if we pass new spending programs, we must also have the courage to raise enough taxes to pay for them. Beyond fiscal and monetary restraint, we must also enact effective programs to cushion the impact of inflation where it strikes with disproportionate force -- programs such as low-income tax relief, extended unemployment benefits, and expanded public employment. Only by ensuring that the burdens of inflation are borne as equitably as possible can we win broad and durable support for the long-term fight against inflation.

Finally, we must sternly resist the temptation to overheat the economy again. We can and must remain alert to the problems of unemployment and other signs of recession, and we must take effective actions to counter their effects. By the same token, however, we should not abandon our policies of moderation in fiscal and monetary affairs in favor of a general program of stimulation. We have tried that before in years past, and each time we have found that we overheated the economy and ultimately made our problems worse. If we take the easy way out again this time, the pressures for new economic controls will be irresistible -- and down the road we can expect even worse inflation and more unemployment than we have today.

Moreover, we should recognize what has caused much of our current sluggishness. It was the high rate of inflation, through its impact on the financial markets, that dried up the supply of mortgage credit and sent the housing industry into a tailspin. And it was inflation, through its debilitating effect on consumer confidence, that caused the biggest reduction of consumer retail purchases in postwar history. These are the two weakest sectors of the economy, and inflation is the culprit. Thus I would agree that we must concentrate our attack first and foremost upon inflation and not succumb to the temptation of pumping new, inflationary stimulus into the economy.

My greatest concern today is not whether we know how to solve our economic problems -- we do -- but whether we have the wisdom and the courage to take the right medicine. A recent poll commissioned by Time Magazine shows that the national mood is bleak -- almost 80 percent of our people are pessimistic about the future -- and social resentment is rising. In these circumstances, there is very likely to be strong political pressures to begin pumping up the economy again.

For once, let us resist those pressures, as tempting as they may be. Let us attack the causes of inflation and not its results. Let us do what we know is right, not what we know is easy. Let us take the hard way, not because it is hard but because it is the only way to put our economic house in order, which is the only way to ensure lasting prosperity, and maintain our economic freedom.

Thank you.

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FOR IMMEDIATE RELEASE

November 13, 1974

Attached is the third decision list released by the Office of Economic Stabilization. Henry H. Perritt, Jr., Acting Director of OES, can be reached at 202-254-8610 for additional information.

Attachment

WS-156

From October 17, 1974 through November 8, 1974, the Office of Economic Stabilization (OES), Department of Treasury, has taken the following actions:

Compliance Actions

Remedial Orders

R. R. Donnelley & Sons Company -
Chicago, Ill.

The OES has issued a remedial order to Donnelley, finding that Donnelley has paid incentive bonuses to its top executives that exceed by $160,168 the maximum amount permitted by 6 CFR, Part 152, Subpart K for fiscal 1973. The remedial order requires the executives to repay this amount to Donnelley. Donnelley and the affected executives have requested review of the order.

Request for Reconsideration of Remedial Order - Denial

Schiavone Construction Company -
Secaucus, New Jersey

The OES has taken a final administrative action denying Schiavone's request for reconsideration of a remedial order, issued May 24, 1974, for violation of its base period profit margin for its fiscal year ending September 30, 1972. By November 22, 1974, Schiavone must refund $2,585,000 to customers for whom work was performed in

Schiavone's 1972 fiscal year. By December 2, 1974, Schiavone must present evidence of its compliance with this order to the OES. Failure to comply will subject Schiavone to legal action by the Department of Justice to enforce compliance.

Health

Requests for Exception

OES acted on 71 Requests for Exception. Of that number, 7 were approved in full, 30 were partially approved and 34 were denied.

Requests for Reconsideration

OES acted on 42 Requests for Reconsideration. Of that number 2 were granted, 18 were partially approved and 22 were denied.

Compliance Actions

OES acted on 49 health compliance cases. Price reductions and/or refunds were ordered in 21 cases; Notices of Probable Violation were issued in 25 cases; Voluntary Compliance Agreements were accepted in 2 cases and denied in 1 case.

Copies of all of the OES orders discussed above, except for the Notices of Probable Violation, are available for inspection at the OES Public Reference Room, 2000 M Street, N. W., Washington, D. C.

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

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $2.0 billion of 52-week Treasury bills to be dated November 19, 1974, and to mature November 18, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 1 tender of $95,000)

High	-	92.600	Equivalent annual rate 7.319%
Low	-	92.529	Equivalent annual rate 7.389%
Average	-	92.556	Equivalent annual rate 7.362% 1/

Tenders at the low price were allotted 55%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	
Boston	$ 22,415,000	$ 3,415,000	
New York	2,961,385,000	1,572,110,000	
Philadelphia	2,430,000	2,430,000	
Cleveland	65,385,000	35,285,000	
Richmond	30,275,000	15,275,000	
Atlanta	16,255,000	8,205,000	
Chicago	427,290,000	248,655,000	
St. Louis	45,515,000	19,765,000	
Minneapolis	8,570,000	2,570,000	
Kansas City	9,540,000	6,880,000	
Dallas	18,000,000	5,550,000	
San Francisco	193,330,000	80,130,000	
TOTALS	$3,800,390,000	$2,000,270,000	2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 7.91%.

2/ Includes $63,090,000 noncompetitive tenders accepted at the average price.

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

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FOR IMMEDIATE RELEASE
Monday, November 18, 1974

CIVIL RIGHTS GUIDE ISSUED BY OFFICE OF REVENUE SHARING

"General Revenue Sharing and Civil Rights" is the subject of a new publication released today by the U. S. Treasury Department's Office of Revenue Sharing.

The new booklet is designed to help state and local officials prevent or correct discriminatory practices and to inform citizens generally of their rights and responsibilities regarding equal rights under revenue sharing law. It was prepared with assistance from a number of public and private civil rights agencies.

A unique "Discrimination Quiz" points out typical employment and planning procedures which would be legitimate cause for civil rights complaints. Descriptions of actual revenue sharing-related civil rights compliance cases are included. The booklet also contains a bibliography of pertinent civil-rights laws and Executive Orders.

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Procedures to use to file compliance complaints with the Office of Revenue Sharing are outlined, together with the steps the Office takes to resolve problem situations.

"We have made our complaint procedures very simple. Any person can set the review process in motion by writing us a letter. No forms are required," Graham W. Watt, Director of the Office of Revenue Sharing said in releasing today's report.

When the Office of Revenue Sharing finds a recipient government to be in noncompliance with the law, every effort is made to eliminate the discriminatory practice so as to stop the discrimination quickly. If negotiations are unsuccessful, the Office of Revenue Sharing will proceed with legal enforcement action.

"Our approach is to eliminate discriminatory practices, not neccessarily to find guilty parties," according to Graham Watt.

Since it was established in 1973, the Office of Revenue Sharing has opened 95 cases relating to discrimination in the use of shared revenues by states and local governments. Of these, 28 were received between July 1 and September 30, 1974. Of the total caseload, 30 issues have been resolved out of court, one has been resolved in court, and 64 are in various stages of investigation. Some cases are being investigated by the Office of Revenue Sharing in cooperation with other federal, state or private agencies.

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"The Office of Revenue Sharing seeks to draw upon existing resources and expertise whenever possible," Graham Watt explained. "Rather than try to duplicate work already being performed - at substantial cost to the taxpayer - we are working cooperatively with agencies already in place to fulfill our joint responsibility to assure equal protection under the law."

Last month, for example, the Office of Revenue Sharing and the Equal Employment Opportunity Commission signed an agreement designed to assist both agencies in resolving complaints of employment discrimination against public employers and their contractors.

The State and Local Fiscal Assistance Act of 1972 which authorized the general revenue sharing program provides that "No person in the United States shall on the grounds of race, color, national origin or sex be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity funded in whole or in part with (revenue sharing funds)".

Nearly 39,000 units of government regularly receive revenue sharing funds and are subject to the civil rights requirements of revenue sharing law. No other Federal agency or Department has comparable civil rights enforcement jurisdiction over all units of general government in the United States.

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The State and Local Fiscal Assistance Act authorizes the distribution of $30.2 billion to states, counties, cities, towns, townships, Indian tribes and Alaskan native villages over a five year period that ends with December 1976. Of this amount, $15.8 billion already has been distributed. The next quarterly payment will be issued in January 1975.

Individual copies of "General Revenue Sharing and Civil Rights" are available from the Office of Revenue Sharing upon request. Copies in quantity may be ordered from the U. S. Government Printing Office, Washington, D. C. 20402.

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

REMARKS OF THE HONORABLE GERALD L. PARSKY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
FINANCIAL TIMES AND THE OIL DAILY CONFERENCE
"OIL & GOVERNMENTS"
THE PIERRE HOTEL, NEW YORK, NEW YORK
THURSDAY, NOVEMBER 14, 1974

Financial and Economic Aspects of U.S. Relations in the Middle East

I certainly appreciate the opportunity to participate in your Conference this morning. The title, "Oil and Governments," is an interesting one to me. It seems that ever since I have been working in the government, we have become more and more involved in oil matters. From the standpoint of government awareness, I believe this is a positive development. The U.S. Government has let its energy policy drift too long and increased recognition of the importance of the problem is the first step toward evolving a viable solution. However, from another standpoint, increased government involvement can be negative; for the more we as a government interefere -- the more we try to regulate an industry -- the greater the chances for distortions in the marketplace and for real harm to our economy.

With this in mind, I thought I would discuss with you this morning the economic and financial aspects of our relations with the Middle Eastern countries. In general, I would say that two events have been the principle controlling factors. The first was the four-fold increase in petroleum prices that occurred almost one year ago and which poses the most serious challenge to the world economy since World War II. The second is the Yom Kippur War and the continuing unresolved conflict in the Middle East. The seriousness of the problems these factors present can not be overemphasized, but I believe that a major contribution to solving these problems can be achieved through the economic and financial policies of the United States working in cooperation with other nations, including those of the Middle East. More than ever before these events have demonstrated the interdependence of the various economies of the world and the necessity for international cooperation and responsibility if we are to maintain a stable world economy and a durable peace.

Turning first to the four-fold increase in oil prices, I would like to summarize the magnitude of the problem. The nations of OPEC received $15 billion from their oil trade in 1972. In the current year their earnings have soared to about the $100 billion mark. In 1974, the United States alone will pay out some $25 billion for foreign oil. This is $17 billion more than in 1973. More importantly, we are faced with the worse peacetime inflation in history, inflation that has been significantly fueled by the high cost of energy.

Petroleum products have accounted for 15-20 percent of the increase in our major price indexes over the past year -- somewhat more if the indirect affects could be properly measured -- and now most of this rise has been built into the ongoing rate of inflation in a way that will make it very tough to squeeze out of the system.

For most other oil consuming countries the impact has been even more severe. In total, the rest of the world will run a trade deficit, offset by a surplus in the OPEC countries, in excess of $60 billion this year. If present trends were to continue, the total cumulative debt of the rest of the world to the OPEC countries could exceed $500 billion by 1980.

We do not believe imbalances of this magnitude can continue. They are neither politically or economically tolerable, and we have been exploring every opportunity to reverse present trends. We have sought to impress upon the Arab leaders and the other OPEC members that their oil policies are extremely bad economics. If these policies persist, the OPEC nations are likely to find that one day their oil market will be tending sharply downward and even moves to lower prices at that time will not bring their market back. They have not yet been fully persuaded but some at least are beginning to recognize the implications of the enormous pressures that are developing in the United States and other consuming countries to become more self-sufficient. I fully expect that our arguments will prove to be quite convincing once the real effects of our energy policies become more evident. This does not mean that we are headed toward a confrontation with the oil producing countries. Rather, we are trying to develop understandings with them on our mutual interests. We are seeking to show the producers that they have lost sight of the important inter-connections of the world economy, as well as the long-term dynamics of the market system. We are seeking their understanding that price levels unrelated to market conditions, unrelated to revenue needs of the producers, and unrelated to the prices of long-term substitute supplies promise short-term hardship and long-run instability, for us now and for the oil exporters later. Only if we can re-create a mutuality of understanding with producers will we be able to avoid the unfortunate consequences of the present level of oil prices.

In order to facilitate this understanding, as well as for reasons related to peace in the Mideast, we have been developing a series of bilateral economic programs under the formal mechanisms of Joint Cooperative Commissions with Saudi Arabia, Egypt and Iran and have also been in close contact with other oil producers, such as Kuwait, Abu Dhabi, and Quatar in a less formal way.

Our intentions in all of this are clear. We want to help these nations achieve their aspirations of becoming advanced industrial and agricultural societies. We believe that their desire to modernize their economies is both legitimate and laudible, but we believe that they should understand that their long-term interests lie in maintaining good relations with industrialized nations and in following pricing and supply policies that guarantee them something other than a declining market for their oil.

I am hopeful that the OPEC nations will eventually realize the need to alter their existing policies. I believe that economic and political realities will bring the oil prices down. Nevertheless, everyone must recognize that oil diplomacy is particularly delicate at the moment and in the short run there may even be some further efforts to increase prices. Over the long run, however, the question is not whether oil prices will come down but when. In the interim, we are faced with the issue of dealing with the effects of the high oil prices. It first must be recognized that this change in oil prices represents a loss in real incomes to the consuming countries relative to what they otherwise would have been and this has a contractionary effect on our economies. At the same time, the oil price increases have been a major contributor to world inflation. Thus it is very difficult to design policies to simultaneously offset these two effects.

In addition to directly affecting prices, employment and output, high oil prices affect the performance of the world economy through their impact on the international financial system. Since the OPEC countries, as a group, will not be able to expand their imports of goods and services as rapidly as their oil export revenues, they must accept an increasing level of financial claims on the rest of the world. With the OPEC countries running these large balance of payments surpluses, the oil-importing countries as a group can not avoid equivalent deficits. This is a drastic change for the industrial countries of the world which have been accustomed to surpluses in their goods and services accounts and to being net lenders on the international scene. The developing countries, which have been borrowing to finance their economic development now must borrow to finance essential current consumption as well unless they are prepared to cut back on their development programs or depress the living standards of their people. Thus, we are faced with a massive financing problem.

Looking first at the problem from the oil producers' viewpoint, they are faced with the necessity of allocating their surplus funds among alternative forms of foreign investment and foreign aid in various countries and markets. The basic objective behind the foreign investment policies of all the producers is to obtain the maximum return on their investment. However, I have found that their approach does differ from country to country depending on how much they want to emphasize the liquidity of their investment. For instance, Saudi Arabia has decided to undertake a major industrial program which will call for large amounts of capital to be invested internally. Given this need, they want to maintain a flexible approach which will allow their funds to be available when needed for the industrialization and diversification of the Saudi economy. They have tended to prefer highly liquid bank deposits and government securities, and more recently direct placements of longer term government and corporate debt issues. We expect this trend to continue and some limited movement into equity investments is likely. Kuwait, however, has shown considerable interest in taking equity positions in foreign firms and joint ventures in the real estate area, which should yield higher returns but also involve more risk. I have just returned from meetings in Kuwait with several of the men handling Kuwait's foreign investments and I can assure you Kuwait's skills in this area are highly developed. I am convinced that they are searching for a variety of profitable investment opportunities in the industrial world, but I also believe that this will not be forthcoming in significant amounts unless the Arab investors are assured of being allowed to participate in the ownership of the industrial productive capacity of the West. They emphasized to me that the oft-expressed fear of Arab capital controlling key industries in the West is unrealistic. They have neither the means, nor the desire to do so. What they do want, however, is a relationship of real partnership and not the role of passive money lender. This distinction is important to them, and if we are to attract the kind of capital that will be needed in the years ahead in this country, we must recognize this as well. Not only will such a partnership help satisfy our capital needs, but I believe that such partnership within the industrial world could also be potentially useful to Arab economic development, especially if directed to those industries that use Arab commodities or export capital goods to the Arab world.

In short, I would say that most OPEC countries do appear to recognize that the way they handle their foreign investments can have significant effects on the economies of the oil consuming countries and on the international financial system. Their policies in this regard have been responsible and we fully expect they will continue to be. If there are serious disruptions to the world economy, the oil producers themselves, of course, would be directly affected, both through the deterioration in the value of the financial claims they hold and in the effects on the markets for oil.

An example of the OPEC countries assuming some of the responsibility that comes with increased economic wealth and power is the sharp growth in their aid programs to the less developed countries. The movement of some oil producer countries to the front ranks of aid donor nations ahould contribute greatly to easing the financial burdens the oil price increases have placed upon the less developed countries.

In one way or another, the surplus funds of the oil producing countries will find their way back to the consuming countries. Most of these funds, in actuality, of course, never leave. The "recycling problem" is really an intermediation problem of getting these funds to the countries that need them, in a manner which is consistent with international economic and financial stability.

So far, our existing complex of financial mechanisms, private and intergovernmental, has proved adequate to the task of recylcing the large volumes of oil monies already moving in the system. Initially, the private financial markets played the major role, adapting in imaginative and constructive ways. More recently, government-to-government channels have increasingly been open, and they will play a more important role as time goes by. New financing organizations have also been established by OPEC countries. Our international institutions -- and specifically the IMF and World Bank -- have redirected their efforts to provide additional ways of shifting funds from lenders to borrowers. The IMF responded rapidly in setting up its special oil facility.

Although existing financial arrangements have responded reasonably well to the strains of the present situation, and we believe they will continue to do so, we recognize that this situation could change. We should remain alert to the potential need for new departures. I do not believe in an attitude of laissez-faire, come what may. If there is a clear need for additional international lending mechanisms, the United States will support their establishment. It should be recognized that no recycling mechanism will insure that every country can borrow unlimited amounts. Of course, countries continue to have the responsibility to follow monetary, fiscal and other policies such that their requirements for foreign borrowing are limited.

The various alternatives for providing supplementary financing mechanisms should be given careful study. Whatever decision is made will have profound consequences for the future course of the world economy. We are carefully assessing what our options are and carefully considering the full consequences of alternative courses of action. What is urgently needed now is careful preparation and probing analysis.

I have noted our cooperative approach towards the development of the Middle Eastern economies. Similarly, I believe there can be substantial mutual benefits to working together with the Middle Eastern countries in the international investment area to develop investment policies which are consistent with economic and financial stability while fulfilling their investment objectives. The oil producers are already major participants in the financing facilities that have been established. One other approach I am working on personally is to facilitate the use of surplus funds of oil producing countries in investments in less developed countries in partnership with U.S. companies which would bring their technology and expertise to the venture. Such triangular investments would contribute to the economy of the LDC while yielding important benefits to the U.S. firm and providing an attractive investment opportunity to the oil producing country. During my recent trip to Kuwait, I discussed this concept at length. The focus was on a U.S.-Kuwaiti-Egyptian cooperative effort. I will be exploring this area further in the weeks ahead because I believe it can make a unique contribution, not only to our efforts to build closer economic relations in the Middle East but also to our desires to facilitate the orderly flow of funds from the oil producing countries to the rest of the world.

The economic problems I have discussed today have no easy solutions. They potentially threaten the very fabric of our world economy. However, I believe the answers can be found by pursuing the many cooperative economic efforts we now have underway. A Middle East experiencing broad based economic growth and increasing interdependence with the rest of the world economy will be less likely to pursue economic policies which could destroy that economy and less likely to risk it all in a disastrous war. I believe that peace and economic progress are interrelated. Without peace, we cannot have economic progress. With economic progress, however, we can minimize the possibility of renewed hostilities. It is this basic objective which underlies our economic relations with the Middle East. Having spent a good deal of time in this part of the world recently, I believe we will succeed; for in the end we are all striving for the same result -- a strengthened world economy and a peaceful world environment.

Thank you.

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November 14, 1974

FOR IMMEDIATE RELEASE

TREASURY RAISES CASH

The Treasury will raise $4.5 billion of cash to meet its seasonal needs by the sale of April and June tax anticipation bills and a strip of additions to outstanding weekly bills.

April tax anticipation bills in the amount of $2.25 billion will be sold at auction on Wednesday, November 20. The bills will mature on April 16, 1975, but may be used at face value in payment of Federal income taxes due April 15, 1975. The payment and delivery date for the bills will be December 3, 1974; payment may not be made by credit to Treasury tax and loan accounts.

A strip of bills in the amount of $1.0 billion will be sold at auction on Thursday, November 21. The strip will be made up of additions of $200 million each to the weekly bills maturing December 12, 1974, through January 9, 1975. The payment and delivery date for the bills will be December 4, 1974; payment may not be made by credit to Treasury tax and loan accounts.

June tax anticipation bills in the amount of $1.25 billion will be sold at auction on Tuesday, November 26. The bills will mature on June 17, 1975, but may be used at face value in payment of Federal income taxes due June 15, 1975. The payment and delivery date for the bills will be December 5, 1974; payment may not be made by credit to Treasury tax and loan accounts.

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

FOR IMMEDIATE RELEASE November 14, 1974

TREASURY OFFERS $1.0 BILLION STRIP OF BILLS

The Department of the Treasury, by this public notice, invites tenders for additional amounts of 5 series of Treasury bills to the aggregate amount of $1,000,000,000, or thereabouts, for cash. The additional bills will be issued December 4, 1974, will be in the amounts, and will be in addition to the bills originally issued and maturing, as follows:

Amount of Additional Issue	Original Issue Dates 1974	Maturity Dates	CUSIP Nos.	Days from December 4, 1974 to Maturity	Amount Currently Outstanding (in millions)
$200,000,000	June 13	December 12, 1974	912793 VC7	8	$4,514
200,000,000	June 20	December 19, 1974	912793 VD5	15	4,404
200,000,000	June 27	December 26, 1974	912793 VE3	22	4,401
200,000,000	July 5	January 2, 1975	912793 VP8	29	4,510
200,000,000	July 11	January 9, 1975	912793 VQ6	36	4,435
1,000,000,000			Average	22	

The additional and original bills will be freely interchangeable.

Each tender submitted must be in the minimum amount of $50,000 . Tenders over $50,000 must be in multiples of $ 25,000 . One-fifth of the amount tendered will be applied to each of the above series of bills.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, 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 one-thirty p.m., Eastern Standard time, Thursday, November 21, 1974. Tenders will not be received at the Department of the Treasury, Washington. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. A single price must be submitted for each tender.

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

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

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $250,000 or less (in amounts as set forth in the second paragraph) without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch in cash or other immediately available funds on December 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 bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made. Purchasers of a strip of the bills offered hereunder should, for tax purposes, take such bills on to their books on the basis of their purchase price prorated to each of the 5 outstanding issues using as a basis for proration the closing market prices for each of the issues on December 4, 1974. (Federal Reserve Banks and Branches will have available a list of these market prices, based on the mean between the bid and asked quotations furnished by the Federal Reserve Bank of New York.)

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

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FOR IMMEDIATE RELEASE November 14, 1974

TREASURY OFFERS $3.5 BILLION OF APRIL AND JUNE TAX ANTICIPATION BILLS

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $3,500,000,000, or thereabouts, as follows:

134-day bills, for $2,250,000,000, or thereabouts, to be dated and issued December 3, 1974, and to mature April 16, 1975 (CUSIP No. 912793 XA9). The bills will be accepted at face value in payment of income taxes due on April 15, 1975.

194-day bills, for $1,250,000,000, or thereabouts, to be dated and issued December 5, 1974, and to mature June 17, 1975 (CUSIP No. 912793 XB7). The bills will be accepted at face value in payment of income taxes due on June 15, 1975.

The bills will be issued on a discount basis under competitive and noncompetitive bidding and at maturity, to the extent they are not presented in payment of income taxes, their face amount will be payable without interest. They will be issued in bearer form 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.

Taxpayers desiring to apply these bills in payment of income taxes may submit the bills to a Federal Reserve Bank or Branch or to the Bureau of the Public Debt, Washington, D. C. 20226, not more than fifteen days before the appropriate income tax payment date. In the case of bills submitted in payment of income taxes of a corporation they shall be accompanied by a duly completed Form 503 and the office receiving these items will effect the deposit on the date the taxes are due. In the case of bills submitted in payment of income taxes of all other taxpayers, the office receiving the bills will issue receipts therefor, the original of which the taxpayer shall submit on or before the date the taxes are due to the Internal Revenue Service Center Director for the District in which such taxes are payable.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Standard time, Wednesday, November 20, 1974, for the 134-day bills and up to one-thirty p.m., Eastern Standard time, Tuesday, November 26, 1974, for the 194-day bills. Tenders will not be received at the Department of the Treasury, 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.

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

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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.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $500,000 or less for the 134-day bills and $300,000 or less for the 194-day bills, without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch in cash or other immediately available funds on December 3, 1974, for the 134-day bills, and on December 5, 1974, for the 194-day 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 bills (other than life insurance companies) issued hereunder must include in his Federal 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.

Department of the Treasury 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.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
726 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20506

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November 15, 1974

For information call:
(202) 456-6757

MEMORANDUM FOR CORRESPONDENTS:

The time and location of the hearing called by the Council on Wage and Price Stability concerning the price of raw and refined sugar has been changed from the New Executive Office Building to the Department of Interior's Auditorium, C Street Entrance, between 18th and 19th Streets, Washington, D.C. The hearing is now scheduled to begin at 9:30 a.m. on November 25, 1974, and will last two days.

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

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FOR RELEASE ON DELIVERY

ADDRESS OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE 61st NATIONAL FOREIGN TRADE CONVENTION
SPONSORED BY THE NATIONAL FOREIGN TRADE COUNCIL, INC.
AT THE WALDORF-ASTORIA HOTEL, NEW YORK, NEW YORK
MONDAY, NOVEMBER 18, 1974 AT 10:30 A.M. (EST)

We meet today in serious times -- times that demand plain speaking -- and I intend to speak plainly and bluntly.

As all of you know, the policies of the oil cartel now pose a fundamental challenge to the economic and political structure which has served the international community for a quarter of a century. Some believe the world confronts the greatest economic crisis since the early postwar years. Yet, as President Eisenhower once observed, a crisis need not stampede men into headlong panic. "A crisis," he said, "is also the sharpest goad to the creative energies of men, particularly when they recognize it as a challenge to their every resource, and move to meet it in faith, in thought, and in courage."

That was a lesson the leaders of the early postwar years had already learned, and they applied it well. Their vision and their work laid the foundations for a period of unprecedented growth and progress, not only among the industrialized nations but among the newly developing nations as well.

Today, the vision and creative energies -- and indeed, the principles -- of those earlier years are needed once again. With consumers, we must seek a new unity of purpose and strength of common effort. With producers, we must seek to resolve our differences through mutual understanding and cooperation. And with developing nations, we must continue to provide help and assistance so that they may fulfill their dreams of advancement. This is the basis upon which the United States is moving forward today in both its trade and energy policies.

Need for Swift Action on the Trade Bill

With trade deficits mounting in almost every nation outside the Oil Producing and Exporting Countries bloc, governments in many countries are increasingly tempted to restrict trade in the name of shortage, surplus, inflation or unemployment. As we have learned once before in this century, however, beggar-thy-neighbor policies by one party are ultimately destructive for all. This is not a time for unconstrained bilateralism, for monopolistic restriction on supply, or for other administrative arrangements which distort normal patterns of trade and investment. The solutions to the problems of an interdependent world lie in more interdependence, not less. An expanding world economy with reasonably stable prices is essential to the political, social and economic interests of all nations. This can only be achieved if conditions are established which permit foreign trade and investment to play their historical role as engines of economic progress.

Negotiations on trade and trade relations were never more appropriate or timely. In this regard, we place great importance upon enactment of the Trade Reform Bill before the end of this year. A clean act, unencumbered by extraneous amendments, is a matter of urgent priority to the President. Only with this legislative mandate can our negotiators be effective in seeking an open and flexible world trading system, and only with the full participation of the United States can we solve common economic problems.

Previous international trade negotiations have focused on the problem of opening national markets to the exports of other countries. It is essential that the Multilateral Trade Negotiations in Tokyo now turn to the other side of the question, finding means to ensure international access to food and raw material supplies.

The Challenge of the OPEC Bloc

This problem of gaining access to supplies has been pointedly raised, of course, by actions of the oil exporting nations belonging to the OPEC bloc -- first by the embargo last fall, then by a quadrupling of prices, and finally by their production cutbacks designed to maintain prices.

Before the price increase in October of last year, the average payment to producing countries for a barrel of oil -- using Saudi Arabian light crude as a benchmark -- was less

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than $2; today it is approximately $10. Payments to OPEC nations for oil, amounting to $22 billion in 1973, are expected to exceed $85 billion this year and as of this fall are running at an annual rate of about $100 billion. This year alone the OPEC nations will have $60 billion in earnings which they do not spend on imports of goods and services. A receipt for the OPEC group is obviously a payment for the oil importers, and a surplus for OPEC is a deficit for the rest of the world. Only by piling up debt to the OPEC nations can the importers, as a group, pay for the oil.

The costs imposed on the world economy by exorbitant oil prices are both severe and extensive. They make our battle against inflation more difficult and the inflation itself more virulent. As the world shifts resources to adapt to a new energy balance, there will also be serious frictions and unavoidable costs of structural adjustment. Reluctance to borrow year after year to finance oil purchases will cause nations to maintain lower levels of economic activity and there will be slower economic growth. There is a clear danger that some countries might take inappropriate or disruptive actions, with the risk of retaliation and resort to competitive restrictions. At some time, furthermore, real resources will have to be transferred to OPEC countries to pay for accumulated debt. The direct impact will not be equal for all countries -- but directly or indirectly, all countries will find their hopes for prosperity dimmed. I can think of no single change that would more improve the outlook for the world economy than a substantial decrease in the price of oil. And I can conceive of no development more essential to the preservation of our international trading system.

Why Oil Prices Must Eventually Fall

The producing nations are aware that oil is not immune to the forces of supply and demand. The sharp jump in prices has already resulted in reduced oil consumption around the world -- and as the passage of time permits further adjustments, such reductions will be far greater. In the oil importing countries of the non-Communist world, consumption is projected to decline from the 1973 level of 48 million barrels per day to about 46-1/2 million barrels per day this year. When it became evident that consumption was declining, a number of OPEC countries cut their output, not their price. Prior to the embargo last year, OPEC spare capacity was on the order of 1-1/2 million barrels per day. Now they have unutilized capacity of nearly 8 million barrels a day. Even during their oil embargo, excess capacity did not reach this level.

Inevitably, if that excess capacity grows, there will be increasing pressures for lower prices.

In the face of high prices, consumers are also accelerating development of their own sources of energy which, in time, will cost them significantly less than the current price of OPEC oil. If the OPEC nations persist in cutting back output in order to maintain price, they will find that both their market and their income have been drastically eroded. To me, the question is not whether oil prices will fall but when they will fall.

I know there are energy doomsayers in the world who believe that the world is about to run out of oil. Those people are dead wrong. First of all, many experts believe that in the Middle East itself, proven reserves of nearly 400 billion barrels of oil are matched by additional reserves at least equal in amount. Nor are the world's energy consumers locked in an OPEC vise. The world's oil and energy resources outside the OPEC nations are even larger than inside. Here in the United States, our oil production potential is enormous from new sources off our shores and in the Arctic and from older sources through improved and more intensive methods of recovery. And other traditional energy sources -- natural gas, coal and nuclear power -- will become increasingly important as market incentives move our potential into production. Waiting in the wings, new sources of energy will be brought forth by technological progress and economic incentives -- the same process by which our energy resources have always been developed.

Realistically, some potential sources of energy will require passage of time before they result in substantial production. But the oil market itself is already in the process of being transformed. In the past year alone, 26 significant, new oil discoveries have been reported. At least 30 billion barrels of oil have been added to proven reserves outside the OPEC countries -- an increase of 25%. Proven North Sea reserves have doubled since last fall; Mexico has discovered enormous new fields; even China has announced finds that allow it to become a significant oil exporter. Oil has also been found in commercial quantities in Guatemala, the Peru-Amazon Basin, the Tierra Del Fuego region of Chile and Argentina, Gabon, Zaire, Cabinda, Angola, Tunisia, India, Bangladesh, Burma, Malaysia, Brunei, Thailand, South Vietnam, Taiwan, and Egypt. And all these discoveries have taken place in just one year.

Altogether these finds outside OPEC have an estimated production potential of 13 million barrels per day by 1980 -- all of which reduce OPEC's potential market. And this doesn't even include the oil which will be flowing from Alaska and our outer continental shelf.

We do have an energy crisis, but it's clearly solvable. The OPEC nations, by stringently limiting the rate at which their oil is flowing, are inevitably creating the conditions under which floods of energy from other sources will be forthcoming -- and forthcoming at prices well below current levels.

There is no justification today for the present price of oil. It bears no relationship to the costs of production. The contention by some OPEC members that the increase was required in order to keep pace with the rise in price of other commodities is just not true. A barrel of oil today buys in imports some five times what it did two decades ago and four times what it bought as recently as last September.

Let us also be clear that we are not faced with a case of producing companies rigging the markets. Profits of the oil companies have increased, but this is largely a short-run phenomenon resulting from revaluation of inventories, profits in collateral activities such as chemicals and transportation, and other factors. Certainly the oil companies would not conspire to escalate the revenues of the OPEC countries so that the host countries would then take over their industry. Oil is now over-priced for one reason and one reason only: because a small group of countries have joined together to manipulate the price.

Securing Cooperation Among Consumer Nations

It has been our hope that these nations would recognize that their policies are in neither their own interests nor in the interests of the world. Their hopes as well as ours lie in the resumption of international trade on reasonable terms. Until now, however, our arguments have fallen on seemingly deaf ears. The United States has long recognized that logic and moderation might not prevail, and for that reason, over the past year and a half, we have been quietly but firmly laying the groundwork for a more effective response to this challenge by the major consumer nations.

A central thrust of our policy has been to achieve greater cooperation among consumer nations. In pursuit of that goal, literally hundreds of hours have been devoted to private and public diplomacy by the highest-ranking officials of our government. Our record is clear:

-- In April of 1973, President Nixon warned that energy was becoming a major problem and that close cooperation was needed between the United States, Western Europe and Japan.

-- In February of 1974, at our invitation, a dozen major consuming nations gathered here for the Washington Energy Conference. I submitted a detailed paper at that time on the financial and economic aspects of international oil prices and on the need for conservation and expanded production. At that conference, the international Energy Coordinating Group was established, providing essential machinery for consultation and negotiations among consuming nations.

-- After extended discussions by members of that coordinating group, an agreement was reached in Brussels this September for an unprecedented plan to share energy resources among consumer nations during times of emergency. The Brussels agreement represents a major breakthrough, for it will provide mutual protection in time of need and it was reached after previous attempts had failed. The Brussels meeting also produced guidelines for cooperative long-run efforts in energy conservation, production, and research and development, and led to the formation of a new organization associated with the OECD to carry out this program, the International Energy Agency. The Governing Board of this new agency is holding its first meeting today. These are all solid achievements, but now we must go further.

The New Proposals by the United States

In many meetings with senior officials of other nations over the course of the past ten months, Secretary Kissinger and I and our senior deputies have discussed our views of the current world economic situation and listened to theirs. We have continually stressed that energy, economic and financial problems cannot be separated and that new initiatives in one area must be linked to new initiatives in the other areas. In the past several weeks, we have presented a comprehensive set of proposals in private talks with a limited number of major industrial countries, and the discussions that followed have been very intensive and constructive. Recently, feeling that the agreements reached in Brussels gave us solid foundations upon which to build, President Ford directed that the United States should finally make a public presentation of its proposals. That was the basis of Dr. Kissinger's speech in Chicago last Thursday night, when he outlined the global aspects of our position, and my talk here today, in which I will present the financial aspects of our proposals in greater detail.

The essence of the United States position can be succinctly described:

-- The price of oil itself, not its financial repercussions, is the real source of trouble in the world economy.

-- To help bring about lower oil prices, and to reduce the economic burden of oil imports, major consuming nations should work together to achieve significant reductions in their imports of OPEC oil.

-- They should also coordinate policies and pool their technical resources to increase energy production within their own nations.

-- IMF resources should be more fully mobilized for all its member nations.

-- A major, new financial mechanism should be set up in association with the OECD to provide stand-by financial support in case any of the participating countries find themselves in economic trouble after having made reasonable efforts on their own part.

-- Consideration should also be given to setting up a special trust fund managed by the IMF to help developing nations that are suffering the most and require financing on concessional terms.

-- Finally, serious preparations should be made for an eventual dialogue between a united consumer group and the producer nations.

Our ideas call for a forthright, earnest effort by the world's major industrial countries to resolve the international energy crisis. To implement such a far-reaching initiative will require further weeks of diplomacy with our allies and friends. We will need the cooperation of the Congress. And we will need your support and the support of all other Americans.

Reducing Oil Imports

Let us look more closely now at these proposals. All major oil consuming countries have adopted national programs of energy conservation to reduce oil imports. President Ford has announced a U.S. Program to reduce oil imports by one million barrels a day below what they otherwise would have been by the end of 1975. The President has made it clear that we will meet this target and that whatever steps are necessary will be taken. The French Government announced some weeks ago that it would take actions to limit 1975 oil imports in France to a quantity costing no more than imports in 1974. Just last week, the British Government announced new taxes on gasoline in order to reduce oil imports. Other governments have adopted targets, goals and policies differing according to national circumstances, but all directed towards reducing oil imports.

These first steps toward conservation could be strengthened if the major industrial nations as a group were to place on the table their proposed conservation programs and their proposed programs for expanding energy production so that both could be internationally reviewed and discussed to determine their overall adequacy and the equity with which the effort is being shared among nations.

We believe that effective national programs of conservation could achieve a reduction in imports of the major industrial countries of the world by the end of 1975 of at least 3 million barrels a day -- without unduly dampening economic activity and performance. Such a reduction in imports, were it to be agreed upon and implemented, would result in import savings at an annual rate of some $11 billion at present price levels, and would provide strong marketplace pressures to bring down the price of oil. The impact of the efforts of each of us can be multiplied many times by the efforts of all of us. I would be less than candid if I were to leave the impression that achieving this goal will be easy. But I would be less than honest if I were to pretend that what is easy will be effective.

Immediate efforts to reduce oil imports are essential. But equally essential are the efforts needed to promote energy conservation and production in the longer run. Fortunately, we now have, in the new International Energy Agency, a forum for developing and coordinating new national and international policies to achieve these ends. It is no secret that administrative and policy barriers to conservation and to increased production still exist in almost all countries -- including the United States. It is also no secret that international efforts to achieve these same objectives face many difficulties. But it is essential that we push ahead.

A basic requirement is to develop in the IEA a common longer-term target for reducing the rate of growth of energy consumption and oil imports. Such a longer-run objective will be helpful to governments as national policy decisions are made, and will also serve to demonstrate to OPEC nations where their present course is leading.

We should also establish a review process within the International Energy Agency of the policies of the participating countries for developing new energy sources. Out of this process should evolve not only useful, guiding principles for energy development, but an increased awareness among all members of the requirements of successful policies in this field.

Another complex problem with which we must come to grips in the IEA is the so-called "downside risk" problem. Which energy resources will be developed in the future and at what rates will depend on investor estimates of the prospective price of oil. Prospective investors in energy projects can be expected to be cautious in a situation in which the price of oil could plunge as easily as it has soared. Thus, we must begin to consider methods of international cooperation to provide investors an appropriate degree of protection against such risks.

Finally, there remain unexploited opportunities for cooperation in energy R&D -- in nuclear fusion, coal technology, the use of hydrogen, and enriched uranium -- and the new International Energy Agency can usefully serve to expedite and facilitate such cooperation in these and other areas.

In all of these areas, a collective determination to move forward quickly and effectively will not only serve to reduce our dependence on oil from OPEC nations, but also to accelerate the process by which the price of OPEC oil is brought down to acceptable levels.

Providing Financial Security

At the same time, countries which agree to act together in energy need to be confident that if a financial emergency arises, credit will be available to them on reasonable terms. They could be given such confidence through a new supplementary financial mechanism which the major industrial nations could themselves establish. Among them they will receive the capital represented by the OPEC surpluses. The OPEC countries do not have to be offered special guarantees, above market rates of return, or value indexing schemes. They can place their money where they choose. All that is needed are adequate arrangements -- private and public -- to insure that funds are distributed among the individual oil importing states so as to avoid unnecessarily stringent economic difficulties in particular countries.

Existing private and public facilities have been doing this job of redistribution in the past, and there is no evidence that they cannot continue to do the job. The problems of financing higher oil bills can be managed until oil prices come down -- not easily, not without strains, and not without effort, but they can be managed. Substantial volumes of OPEC funds, probably $45 billion in the first ten months of this year, have been invested in a variety of ways. Nearly one quarter of these funds have been invested directly in the U.S. market and nearly another quarter in the domestic assets of other industrial countries. The OPEC countries have also lent directly to other governments and transferred additional amounts to international institutions -- for example, the International Monetary Fund's special oil facility. In addition, substantial amounts have been placed in Eurocurrency markets -- but the total, less than 40 percent, is not as large as many have assumed. For borrowers, all these investments represent potential sources of funds and provide a wide range of alternative financing channels.

While the international financial system has worked well, we must recognize, however, that individual countries could find themselves in economic trouble, with needed credit too scarce or too expensive to permit them to maintain open economies at appropriate levels of activity. A supplementary loan facility, established by the major industrial countries associated with the OECD, would provide the backstopping that is needed to supplement existing channels of financing. This is the financial safety net that the United States is recommending.

Certain principles would be fundamental to such a mechanism:

1. Participation should be linked with a commitment to cooperate in reducing dependence on oil imports.

2. Participants would also undertake to follow responsible adjustment policies and avoid resorting to the use of trade restrictive measures or other beggar-thy-neighbor policies.

3. Like any insurance policy, the facility should be large enough to do the job. It must be clear that the potential for borrowing is adequate to meet the need. We recommend a facility with total commitments by all members of $25 billion in 1975. Additional financial resources would be provided in subsequent years in case of need.

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4. The facility should supplement private market channels and other channels, including the IMF and other official institutions. It should not replace them. For this reason it should do its lending on market related terms.

5. Decisions on the provision of financial support should be made by a weighted vote of participants and should be based on the overall economic position of the borrower, not on any single criterion such as oil import bills.

6. When ever support is provided by the facility, all members should share the credit risk on the basis of their share of participation.

Beyond these general principles there are many details to be worked out and on which we are open-minded. One question that must be answered is the manner in which the facility would obtain the funds with which to lend. An individual government could lend directly to the new facility or could permit the facility to go into the capital markets of the world and borrow funds on the basis of its guarantee.

There would appear to be a number of advantages in having funds provided to the facility through direct lending by member governments rather than guarantees. Traditionally, the loan route is more efficient and it is cheaper. Nevertheless, it may be desirable in establishing the facility to provide some flexibility on this score simply because national practices and legislative requirements vary widely. Whatever means is chosen, the United States will need to obtain additional authority from the Congress in order to proceed.

For the United States, participation might best be accomplished through the Exchange Stabilization Fund. This Fund has the authority to engage in international lending operations for the purpose of stabilizing the value of the dollar and this would be a basic purpose of our participation in the proposed facility.

Arrangements for administration of the facility will also have to be negotiated. Our initial feeling is that it should be associated with the OECD in a manner similar to that of the new International Energy Agency, and administered by its own governing board, whose members might be drawn from among the senior finance officials of the member countries.

The question of shares will be an important issue in setting up a facility of this nature. Various factors have been mentioned that might be taken into account, such as the size of the oil import bills of the member states, the relative value of gross national product, share in international trade, or some combination of these factors. The various possibilities will have to be carefully weighed.

It may also be important to state that in our current thinking, borrowing from the facility should not be related specifically to imports of oil. "Oil Deficits" become increasingly indistinguishable from "non-oil" deficits. And even the concept of balance of payments deficits is of limited utility in the world we face today. In our view, access to this facility should be based on an overall judgment of a country's needs taken in conjunction with its resources, its basic economic policies and the actions it is taking to reduce dependence on OPEC oil.

We have been discussing the broad outlines of how such a facility might work with a number of other governments for several months. Both my personal conversations with other finance ministers and our official-level contacts give me confidence that there will be support for this general line of thinking. We now intend to urge consideration of this idea more formally in official level discussions in Paris this week. I should note that the Secretary General of the OECD has independently developed suggestions for a supplementary funding mechanism similar in many respects to the one I have just described. His ideas, which are very welcome, will also be on the table at the meetings this week in Paris of the OECD Working Party Three and of the Group of Ten deputies.

We will be prepared to devote many hours and many days of hard work over the next few weeks to translate these broad outlines into an operating program. We will need to work very closely with the authorities of the IMF and the newly established interim committee of that body. Intensive consultations with out Congress will also be undertaken, and I am sure that our partners in this venture will be consulting intensively with their legislatures.

What we are suggesting is in no way intended to replace the International Monetary Fund as the permanent institution providing the basic financial support for a well-functioning world economy. The IMF is in a position to provide substantial additional support to any of its members. It has over $10 billion of currencies which are effectively available and useable, quite apart from its holdings of gold. We are prepared, in the current review of IMF quotas, to support a substantial increase in that figure. Furthermore, we are prepared to support early measures to insure effective mobilization of the resources that the IMF now has.

At the same time we are suggesting an initiative outside the IMF, in part because of the magnitude of the possible transfer requirements among the major industrial countries and in part because the terms and conditions of IMF financial operations are not appropriate to the exceptional circumstances we now face. Moreover, it would be inappropriate -- even if possible -- to introduce into the IMF the full range of policy issues which must be taken into account when decisions and judgments are made with respect to financial support among major industrial countries.

Meeting the Needs of the Developing Nations

Of equal importance is our concern for the developing countries and the smaller industrial countries. Of course, it is true that for the developing countries it is essential that the major industrial countries maintain healthy, growing economies in the face of the oil crisis. The developing countries depend on the industrial nations to take a growing volume of their exports and to continue essential concessional aid levels. If we establish a facility which will help assure the maintenance of economic activity in the industrial countries, we are assisting the developing countries as well. Many of the developing countries have come to depend on continued large capital flows to support their rapid economic growth. By helping to assure orderly access to the major capital markets and thereby reducing the danger of undue competition for the surplus investment funds of the oil exporters, the establishment of a new financial mechanism for industrial countries would enhance the ability of many developing countries to attract the large amounts of capital they need and can productively employ. These countries will also be able to make appropriate use of the resources of the IMF.

One group of developing countries -- those with the lowest per capita incomes and those seriously affected by natural disasters and other problems -- will, however, still require concessional assistance. We and other developed countries have been redirecting our concessional assistance toward these countries and urging the international financial institutions to do the same. We also look to the oil exporters to provide a major part of the additional concessional funds needed by these countries because of the increase in oil prices. The additional amounts needed by these poorest countries -- perhaps $1.5 billion in 1975 -- is small in comparison with the oil exporters' surpluses. But although relatively modest in global terms, the sums involved bulk very large for the countries concerned because needs are this desperate.

We shall be addressing the problems of these countries on an urgent basis in the new Development Committee where we shall keep the availabilities of funds under continual review as well as the efforts of developing countries to make maximum efforts to use available resources effectively. One way to help these countries would be to establish a trust fund managed by the IMF and receiving contributions from OPEC states and from other sources. Perhaps the IMF itself could contribute to such a fund profits derived by the sale in the private market of some portion of its gold holdings. A trust fund of this nature which would offer credit at relatively low cost -- perhaps 2 to 4 percent and on moderately long maturities -- would provide funds to those most seriously affected on terms which are not appropriate for other borrowers. We hope this suggestion will receive the urgent attention of ministers in IMF Interim Committee and IMF/IBRD Development Committee.

Cooperation with the OPEC Nations

U.S. proposals for greater solidarity among major industrial countries in no sense stem from any desire for confrontation with the OPEC nations. We recognize and support the legitimate aspirations of these nations to accelerate their own development, establish their industrial and agricultural bases, and to improve the living standards of their peoples today and in the years to come.

We have established Joint Cooperation Commissions with the key oil producers in the Middle East to help them achieve these objectives. We have undertaken a major effort within our government to provide them the expertise we have achieved in developing the economy of our own country and to help make it adaptable to their development programs.

I personally visited a number of countries in the Middle East last July to launch this effort and intend to return soon to ensure its momentum. My visit last summer was followed by meetings both here and in the Middle East of other U.S. officials, technicians and experts, with their counterparts, which have put flesh on the Commission structures that have been established. We are prepared to continue to do what we can to accelerate the economic development of OPEC nations and to encourage the private sector of our country and other industrial countries to take an active role in this process. In the meantime, we will continue to permit these countries to invest in our markets and I am confident they will be allowed to invest in the markets of other nations as well.

For their part the OPEC countries must recognize that their position in the world economy has already changed dramatically. These countries will continue to have greater influence in the world even with a substantial fall in oil prices. These countries are now the major surplus countries of the world, with a surplus of a magnitude unprecedented in history. It is vital to the maintenance of a sound and equitable world economy that they accept, without delay, the responsibilities which have historically fallen upon major creditor countries.

I have spoken already of their responsibilities for assisting the needy of the world. They must also understand that their foreign investments can be treated no differently from the investments of others. They cannot realistically expect the rest of the world to devise a special system of guarantees for them alone. It is also encumbent upon them to shed the outmoded habits acquired when they were developing countries with limited resources. The resources of this group of countries are adequate to finance their legitimate development aspirations, even though the situation of individual OPEC countries may differ. Their excess revenues this year alone approximate six times the flow of development assistance to all developing countries last year. This new reality must be reflected in the policies of our international financial institutions.

In my conversations with officials of OPEC nations, and on my travels to the Middle East, I have found that there is widespread understanding in OPEC countries of the responsibilities inherent in their new international role. Certainly leaders of OPEC nations are well aware of the important stake they have in a healthy world economic system. I remain confident that a basis can be found for the industrial nations of the world to continue to work constructively with OPEC nations.

Of course, they must recognize that we continue to be strongly opposed to the actions they have taken to compel a massive temporary transfer of resources -- real and financial to them from the rest of the world. We believe they can achieve their development objectives on a more secure basis at a substantially lower level of oil prices.

They must recognize, too, that each passing day takes us a step further away from an optimal utilization of the world's resources, as other nations revise their policies toward reliance on oil imports. Certainly, there is even now no possibility that oil consuming countries can return to the energy practices of two years ago. But the full scope of consuming country reaction is not yet defined, and the hope remains that reasonable men can find rational solutions.

We remain persuaded that extreme policies will, in time, prove very harmful to the basic economic and social aspirations of these nations, and that there is a solid foundation for reaching agreement on a constructive resolution of this issue. Greater cooperation among the world's industrial countries along the lines that Secretary Kissinger and I have set forth last week and today will help establish the basis for such agreement.

Conclusion

In their own interest, and in the interest of the world as a whole, the time has now come when the major industrial nations must grasp the nettle. The evidence before us -- of rapid inflation and economic stagnation -- offers bleak encouragement for the future unless we now take decisive collective action to break the present train of events. We must act together to limit our dependence on imported oil and to promote our mutual economic and financial solidarity. Such action will inevitably be carried out through decisions and actions often appearing to be technical in nature and limited in scope. But underlying all of what we do must be a solid foundation of commitment -- a political consensus that we will act together to determine our own destiny -- and a mutual faith that we can do so. We must maintain our commitment to

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expanding trade and foreign investment. We are too far down the road to interdependence to look back. We have it in our power to choose whether we are prisoners of a history yet to be written or the architects of a future yet to be seen. I have no doubt what our choice will be. We know what the required international response must be.

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

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FOR RELEASE 6:30 P.M. November 18, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.8 billion of 13-week Treasury bills and for $2.1 billion of 26-week Treasury bills, both series to be issued on November 21, 1974, [illegible] erve Banks today. The details are as follows:

13-wk 26-wk

last week
7.604 7.552

To-day
7.528 7.427

four time
7.524 10/21/74 7.398

	k bills bruary 20, 1975		26-week bills maturing May 22, 1975	
	Equivalent Annual Rate		Price	Equivalent Annual Rate
[illegible]	7.402%		96.258 b/	7.402%
[illegible]	7.572%		96.234	7.449%
[illegible]	7.528%	1/	96.245	7.427% 1/

[illegible] ,000
[illegible] 000

[illegible] for the 13-week bills were allotted 29%.
[illegible] for the 26-week bills were allotted 71%.

[illegible] ACCEPTED BY FEDERAL RESERVE DISTRICTS:

		Accepted	Applied For	Accepted
[illegible]	[illegible]	$ 49,700,000	$ 36,340,000	$ 20,020,000
[illegible]	[illegible]	2,151,135,000	3,015,830,000	1,811,850,000
[illegible]	[illegible]	46,925,000	17,135,000	16,015,000
[illegible]	[illegible]	60,580,000	70,300,000	31,260,000
[illegible]	[illegible]	37,035,000	24,455,000	20,380,000
[illegible]	[illegible]	37,810,000	21,330,000	20,865,000
[illegible]	[illegible]	109,850,000	163,715,000	28,725,000
St. Louis	62,100,000	43,500,000	49,550,000	19,950,000
Minneapolis	8,940,000	8,940,000	8,540,000	4,040,000
Kansas City	87,545,000	70,445,000	31,120,000	24,230,000
Dallas	29,970,000	24,940,000	22,235,000	13,235,000
San Francisco	251,755,000	159,205,000	224,965,000	90,035,000
TOTALS	$3,874,565,000	$2,800,065,000	c/$3,685,515,000	$2,100,605,000 d/

c/ Includes $ 525,500,000 noncompetitive tenders accepted at average price.
d/ Includes $255,700,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 7.78% for the 13-week bills, and 7.82% for the 26-week bills.

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RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 20, 1975		26-week bills maturing May 22, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.129 a/	7.402%	96.258 b/	7.402%
Low	98.086	7.572%	96.234	7.449%
Average	98.097	7.528% 1/	96.245	7.427% 1/

a/ Excepting 1 tender of $225,000
b/ Excepting 1 tender of $10,000

Tenders at the low price for the 13-week bills were allotted 29%.
Tenders at the low price for the 26-week bills were allotted 71%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 59,710,000	$ 49,700,000	$ 36,340,000	$ 20,020,000
New York	2,955,795,000	2,151,135,000	3,015,830,000	1,811,850,000
Philadelphia	66,925,000	46,925,000	17,135,000	16,015,000
Cleveland	60,580,000	60,580,000	70,300,000	31,260,000
Richmond	38,535,000	37,035,000	24,455,000	20,380,000
Atlanta	37,810,000	37,810,000	21,330,000	20,865,000
Chicago	214,900,000	109,850,000	163,715,000	28,725,000
St. Louis	62,100,000	43,500,000	49,550,000	19,950,000
Minneapolis	8,940,000	8,940,000	8,540,000	4,040,000
Kansas City	87,545,000	70,445,000	31,120,000	24,230,000
Dallas	29,970,000	24,940,000	22,235,000	13,235,000
San Francisco	251,755,000	159,205,000	224,965,000	90,035,000
TOTALS	$3,874,565,000	$2,800,065,000 c/	$3,685,515,000	$2,100,605,000 d/

c/ Includes $ 525,500,000 noncompetitive tenders accepted at average price.
d/ Includes $255,700,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 7.78% for the 13-week bills, and 7.82% for the 26-week bills.

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FOR RELEASE ON DELIVERY

STATEMENT BY THE HONORABLE GERALD L. PARSKY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON SURFACE TRANSPORTATION
SENATE COMMITTEE ON COMMERCE
ON S.J. RES. 253
TUESDAY, NOVEMBER 19, 1974, AT 10:30 A.M.

Thank you, Mr. Chairman,

It is a pleasure to be able to testify today before your Committee on the matter of regulatory reform. I think all of us recognize that inflation is the Number One domestic problem facing our Nation today. The causes of this inflation can generally be grouped in two categories: a series of special factors that unexpectedly hit the economy in the early 1970's, and another set of powerful, underlying forces that have been building up for more than a decade. Among the special factors are the explosion in food prices, a quadrupling of oil prices, and a simultaneous economic boom among the industrialized nations in 1972 and 1973, which placed heavy pressures on the prices of all internationally traded commodities. Even without these special factors, however the problem of inflation would still be with us because we have supported a decade of decisions that have promised, encouraged, and even forced the demand of goods and services to outrun the productive capacity of our economy. The monstrous growth of the Federal budget is a prime example of our troubles. It took 185 years for the budget to reach the $100 billion, nine more to hit $200 billion, and only four more years to reach the $300 billion level. Now we have no choice--it must be brought into better balance. This is the most important single step that could be taken to restore the confidence in our Nation's economic future. Further, monetary policy has also been overly stimulative and must be regarded as another long-term cause of our economic difficulties. It is less apparent but certainly no less true that the regulatory practices of the government are also at fault. Too often laws and regulations have been put into effect with not enough concern for the underlying costs. These billions of dollars of increased costs are passed on to American consumers in the form of higher prices. That is why we consider it so important to review the role of government regulation as a cause or substantial contributor to the economic problems we face today.

It is with this background, Mr. Chairman, that I am testifying today on Senate Joint Resolution 253. The President has urged a review of regulatory activity with the objective of attacking this problem by identifying areas for reform, and we have submitted our bill, S. 4145, which also calls for the creation of a National Commission on Regulatory Reform. The Treasury Department continues to support that bill. We recognize that the Executive Branch and the Congress have the same interests in creating a National Commission on Regulatory Reform, regardless of the differences which may exist between the two bills under consideration by the Senate. I am here today not to compare the two pieces of legislation, but rather to ask that the Executive Branch and the Congress work together to quickly agree on the most effective way to accomplish the reform of those independent regulatory agencies which, although perhaps with the best of intentions act to impose artifically high prices on U.S. consumers and in other ways operate to the detriment of our economy. With this in mind, Mr. Chairman, I will briefly comment on the provisions of Senate Joint Resolution 253.

Beginning with the resolution's explanation, I believe that the reasoning presented in these paragraphs clearly demonstrates the interests and goals which both the Executive Branch and the Congress share in creating this National Commission. I am confident that we both want the Commission to be productive and recommend that it provide prompt, explicit reform of those independent regulatory agencies which cause the greatest problems in our inflation fighting effort.

The next critical area in the bill is the Commission's structure. It is clear that there must be Commission membership from the Executive branch, the private and academic sector, and the Congress. While the terms of Senate Joint Resolution 253 differ from those in the Administration bill, I believe the areas of difference are reconcilable.

However, there is one section which, I believe, would clearly act against the interests of an effective commission. That is section (b) (1) (c) of the resolution which states that three members be appointed from the personnel of independent federal regulatory agencies. Mr. Chairman, I believe it is necessary that the Commission be composed of individuals who can examine the regulatory process with the utmost of objectivity. In undertaking a thorough and critical review of our independent regulatory agencies, each member of the Commission must be willing to challenge the policies and thinking of regulatory agencies that have been in existence for some forty years or more. Therefore, it is imperative that the Commission members themselves not be selected from the agencies to be reviewed or the regulated industries affected. I am confident that the National Commission will consult with the agencies under consideration and the industries they regulate as they proceed with the difficult task of reviewing those agencies' functions and goals.

The next section of concern to me deals with the Commission's duties. Rather than reviewing each and every section under the Commission's three year long series of reports and analyses, I will make a few general observations. We must make sure that the Commission focuses on the crucial areas of regulatory action that result in the inefficient operation of American industry and artifically high prices for consumers. Much work along these lines has been done over the years -- not only within the government but also by economic and legal analysts outside the government. The Commission should avail itself of this work as it seeks to build an action program. We have had too many duplicative studies in our government. The time for studies is over. What we need now is meaningful action.

Above all the Commission's work must be focused along productive lines. A long list of topics which the Commission must consider and apply to every regulatory body would be self-defeating in terms of creating an effective National Commission. Not only should we not require this Commission to initiate broad surveys or studies, but also we should not ask it to assume the impossible task of evaluating each and every effect of modifying or eliminating industry regulations as these are promulgated by the independent agencies. An effective Commission must have the flexibility to narrow its focus and recommend clear cut approaches for remedying the regulatory ills of our economy without the burden of numerous requirements which, though well intentioned, could dilute the Commission's efforts. We cannot expect this Commission to produce the final statement on regulatory reform. However, this Commission can be effective as one of a series of government efforts to reform our regulatory agencies. We would hope that the Commission would bring forth new initiatives for future reform legislation as well as other types of effective follow-up action on the part of both branches of government. The Commission's work should be viewed as a catalyst which will generate detailed reforms of our regulatory system. For this reason, it is important that neither the Congress nor the Executive Branch delay ongoing and future efforts at specific reforms as we await the results of the National Commission. The Commission will be an important part of the overall government effort.

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Finally, Mr. Chairman, with the goal of narrowing the Commission's focus to increase its effectiveness I believe that the wording of section (d) of the Senate Joint Resolution would broaden the Commission's purview to an extent that could only be self-defeating. I am referring specifically to the definition of "independent regulatory agency" which would include "any other office, agency, or entity of the Federal Government which was or is in the future established by law to exercise independent investigatory, regulatory, or oversight responsibilities of importance to the protection of public health, safety, or consumers." Mr. Chairman, inefficiencies may result from rules promulgated by the many offices and agencies which would fall into this category. However, in the interests of creating an effective National Commission on Regulatory Reform we should expect the Commission to focus on certain key agencies and their operations. The review of other agencies and offices might well be the subject for consideration by ongoing governmental efforts. For example, the Council on Wage and Price Stability has already initiated a major effort in this regard. Further, future groups could find their work much easier as a result of the Commission's efforts.

Along these lines, Mr. Chairman, I would like to note that there are numerous regulatory agencies, many with overlapping jurisdiction, and an agency-by-agency analysis would miss vital agency interrelationships even if the Commission were large enough and had enough time to handle such a comprehensive review. A more productive approach might be for the Commission to direct its efforts toward specific industries where reforms are most needed. Even this might not be the most efficient way of approaching the impressive task of regulatory reform, but the Commission should not be required to attempt an agency-by-agency review.

Mr. Chairman, my statements this morning have been made with a view toward suggesting to the Committee ways to create an effective National Commission on Regulatory Reform. I did not testify today to compare the two bills, but I came to express to your Committee my belief that we are both interested in accomplishing the same goals of creating an effective Commission. We should move together on the President's initiative. I hope that my statements this morning will be of some benefit to both our branches of government as we work together to create a National Commission on Regulatory Reform which will focus on the policies and regulations of independent regulatory agencies which result in the inefficient operation of some of America's largest industries and artificially high prices for consumers. I believe that a carefully structured and staffed Commission which focuses on these areas would become a very effective part of the government's overall fight against inflation, as this is embodied in our efforts at regulatory reform.

Thank you again, Mr. Chairman, for giving me the opportunity to appear before your Committee today. I am hopeful that the Commission which is established by Congress will be one which demonstrates to the public our very real concerns with the issues of inflation and regulatory reform.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE November 19, 1974

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,900,000,000 , or thereabouts, to be issued November 29, 1974, as follows:

90-day bills (to maturity date) in the amount of $2,800,000,000, or thereabouts, representing an additional amount of bills dated August 29, 1974, and to mature February 27, 1975 (CUSIP No. 912793 VX1), originally issued in the amount of $ 2,003,575,000, the additional and original bills to be freely interchangeable.

181-day bills, for $2,100,000,000, or thereabouts, to be dated November 29, 1974, and to mature May 29, 1975 (CUSIP No. 912793 WL6).

The bills will be issued for cash and in exchange for Treasury bills maturing November 29, 1974, outstanding in the amount of $4,705,990,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $ 2,657,120,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, 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 one-thirty p.m., Eastern Standard time, Monday, November 25, 1974. Tenders will not be received at the Department of the Treasury, 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.

Banking institutions and dealers who make primary markets in Government

(OVER)

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.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. 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 or Branch on November 29, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing November 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 bills (other than life insurance companies) issued hereunder must include in his Federal 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.

Department of the Treasury 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
ASHINGTON, D.C. 20220 TELEPHONE W04-2041
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FOR IMMEDIATE RELEASE November 20,1974

EMERGENCY LOAN GUARANTEE BOARD ANNOUNCES LOCKHEED PARTIAL REPAYMENT

The Emergency Loan Guarantee Board announced that Lockheed Aircraft Corporation has reduced loans outstanding under Government guarantee from $230 million to $220 million by repayment yesterday of $10 million to the Company's lending banks.

Lockheed is authorized under terms of its agreement with the Emergency Loan Guarantee Board to borrow up to a maximum of $250 million under Government guarantee.

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Department of the TREASURY NEWS

ASHINGTON, D.C. 20220 TELEPHONE W04-2041

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November 20, 1974

MEMORANDUM TO EDITORS

The attached Q-&-A materials were presented at 9:00 a.m. this morning by William E. Simon, Secretary of the Treasury and Chairman of the Economic Policy Board, to an economic briefing for women's organizations arranged by the Office of Women's Programs of the White House. The materials are based on the most relevant questions being asked by organization leaders, reporters and others on the subject that public opinion polls indicate is the foremost concern of the American people -- inflation and attendant economic problems. Please feel free to reproduce, quote or otherwise use as you wish.

Office of Public Affairs

Attachment

Department of the TREASURY NEWS
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Focus on America's Foremost Problem

Inflation, Controls, Energy, Taxes:
An Interview With The Honorable William E. Simon

Secretary of the Treasury
Chairman, Economic Policy Board

QUESTION: Why are you concentrating on inflation? Isn't the threat of recession our No. 1 problem?

MR. SIMON: President Ford has called inflation Public Enemy No. 1, and I fully agree. Prices are going up faster than at any time in our peacetime history and, if they continue at this pace, they will undermine the very foundations upon which this nation is built.

Double-digit price increases have had brutal impact on low-income families, the elderly existing on retirement pensions and savings, and other Americans who cannot obtain income boosts to offset inflation.

Inflation is also eroding the purchasing power of existing financial assets and pushing up interest rates as lenders try to salvage real returns. Creditors suffer and debtors benefit as claims are repaid with depreciated dollars. Business firms and consumers are forced to adjust spending and investment plans, producing still other adverse economic effects.

Perhaps the worst toll of all taken by inflation is the most subtle -- the erosion of people's confidence in the future -- their loss of faith in their society and government. Indeed, this toll seems to grow in the same ratio as the rate of price increases. This is why we in Washington must act, and act decisively, to come to grips with this curse.

This is not to say that our problems are one-dimensional. We are also confronted with a growing sluggishness in our economy, and are taking actions to meet this challenge.

Yet we must recognize the extent to which inflation has caused the general slowdown. It was inflation that dried up the supply of mortgage money and sent the housing industry into a tailspin. And it is inflation that has undercut consumer confidence, causing the biggest reduction in consumer purchasing since World War II. Since housing and consumer purchasing are the two weakest sectors of the economy, inflation must now be the chief target of our economic policies.

Q: Why do we have to stop inflation, considering all the costs of doing so? Why can't we turn our attention to unemployment and just live with inflation?

A: We can't live with double-digit inflation because it is destroying our social structure. History is littered with the wreckage of societies that failed to come to grips with this contagion. America can *still* avoid this end.

If we were to switch to stimulation of the economy in order to reduce the rate of unemployment, our problem would not be just living with the present rate of inflation, but living with an *accelerating* rate of inflation. And if we maintained such a policy stance for long, we would pass beyond the inflationary point-of-no-return, and prices and wages would be sucked up uncontrollably like leaves in a hurricane.

The situation we are in now is different from previous recessions. During earlier economic downturns the government could safely switch over to stimulative policies because the inflation rate was tolerable. That is not now the case. Our primary concern has to be to avoid worsening the already dangerously high inflation rate. Any significant stimulation of the economy now would simply whip prices higher and lead to an even tougher day of reckoning later.

Q: What does the current economic situation mean to the average person?

A: Many people are frightened. They don't understand what's going on in the economy. Their confidence has been shaken by their extended bout with super-inflation, and they fear further erosion of their savings and pensions. Many are upset by the scarcity of mortgage credit. The security of their jobs is threatened by rising unemployment.

People cannot be blamed for being worried about this confusing set of circumstances, especially when so many economic experts disagree on both diagnosis and cure. This is why it is important for the Government to keep its eye on the primary source of trouble, which is inflation, and then follow steady, balanced policies to gradually bring it under control, at the same time taking the necessary steps to cushion the impact -- on the unemployed, for example -- where cutbacks hit with disproportionate force.

Q. You've used the term "stagflation." What does it mean?

A. It's a composite word made up of the first part of "stagnation" and the last part of "inflation." Stagflation means that prices rise rapidly at the same time that economic activity stagnates and unemployment climbs. We used to experience one or the other. Now we have both. Why? Because unsound government policies, combined with special outside shocks like the food and fuel crises, allowed inflation to get out of hand.

Q: What's caused inflation? Isn't it mostly high oil prices?

A: No, not most of it, though it has certainly been an important factor. The rise in gasoline, motor oil and fuel oil prices has accounted directly for about 15 percent of the rise in the Consumer Price Index over the past year. Other calculations suggest that the quadrupling of world crude oil prices might account for as much as one-third of the 20 percent increase in wholesale prices from a year ago.

There are several other key causes, some due to special factors, others to unsound government policies. Among the former was bad weather around the world, which led to crop shortages and high food prices. A simultaneous worldwide boom put pressure on prices of internationally traded commodities. And two needed devaluations of the dollar triggered widespread demand for United States goods.

Unsound government policies include our three-year experiment with wage and price controls, which led to severe economic distortions and supply shortages. Political pressures have long put a premium on excessive consumption, at the price of adequate investment in productive facilities. Monetary policies have been overly stimulative. And Federal budget deficits have been spurring inflation since the early 1960s.

In fact, to my way of thinking, these unsound monetary and fiscal policies have been the most fundamental causes of present-day rampaging inflation.

Q: How have the budget deficits promoted inflation?

A: If inflation is Public Enemy No. 1, then chronic government budget deficits must be recognized as Public Enemy No. 2. It took 185 years for the Federal budget to reach the $100 billion mark, nine more years to hit $200 billion, and only four more years to reach the $300 billion level. And in only one of the past fourteen years has the government been able to balance its books. In the past ten years alone, Federal deficits have reached a staggering total of $103 billion. The over-all Federal debt, in the process, has soared to $480.5 billion, and annual budget outlays for interest charges alone on this debt now amount to $31.5 billion.

When the Federal budget runs a deficit year after year, especially during periods of high economic activity, it becomes a major source of economic and financial instability. The huge deficits of the 1960s and 1970s have added enormously to aggregate demand for goods and services, and have thus been directly responsible for upward price pressures. Heavy borrowing by the Federal sector has also been an important contributing factor to the persistent rise in interest rates and to the strains that have developed in capital markets.

Worse still, continual budget deficits have tended to undermine the confidence of the public in the capacity of government to govern, let alone deal with inflation.

Q: Why is it so hard to cut $5 billion from a $305 billion Federal budget? Why can't the Pentagon budget be cut?

A: It is difficult to cut the fiscal 1975 budget because such a large proportion of the spending is mandated by previous contractual and legislated commitments, which often can't be changed quickly, and because we are now almost half-way through the fiscal year. There are, however, some areas of the budget that can be cut back and no part will be considered sacrosanct, including the military. We must keep in mind, however, that since 1968, defense spending -- as measured in real terms -- has been reduced by about one-third.

One key fact widely overlooked is that even after this year's budget is cut back by $5 billion, expenditures will still show an increase of $32 billion over last year's total -- an 11 percent jump. What we are actually trying to do is blunt the rate of increase.

In the longer run, budget cutting is difficult because most government programs have vocal and powerful proponents -- the beneficiaries of public spending. On the other side, it is hard to get organized pressure to cut spending. Opposition to spending is diffused widely among the public while the support for spending is concentrated and often very effective.

Perhaps this will change. I believe the American people are fed up with deficit spending and the rapid rise in prices it causes. One hopeful development is the new budget process that Congress adopted last year. For the first time, Congress will have to address explicitly the issue of how large total Federal expenditures and revenues should be -- instead of following the piecemeal approach they've used in the past. There's a good chance that this new mechanism will produce at least some of the fiscal discipline we've needed so badly for so long.

Q: What about so-called off-budget items? With these omissions, how can people get a true picture of what is being spent by government?

A: I believe it is essential that we give the American people a true picture of all Federal programs, including those government-sponsored lending and other activities which are now excluded from the "unified budget" submitted to Congress. While such activities have been excluded from the budget by law or by the conventions of government bookkeeping, they still have a considerable impact on the economy and on the American taxpayer.

For example, in fiscal year 1974 the reported figure of $3 billion of government borrowing from the public (to finance the unified budget deficit of $3.5 billion) showed only the tip of the iceberg: the net borrowing from the public to finance government programs <u>outside</u> of the budget was estimated at $30 billion. We believe that these off-budget activities should be given greater attention in the budget-making process since they exert enormous demand on money markets, boost interest rates and, in effect, pre-empt much necessary private borrowing.

Q: What will the Administration's 5 percent surtax proposal do to cure "stagflation"?

A: The surtax is only one element in the President's comprehensive economic program. "Stagflation" will not be cured by any single step. However, the surtax proposal is extremely important in that it is designed to pay for the unemployment and other spending programs that will cushion the impact of economic adjustment and insure that burdens are equitably shared.

Q: How can you propose that the 5 percent surtax apply equally to middle-income taxpayers and high-income taxpayers? Isn't this unfair?

A: Perhaps we could have done a better job in explaining the application of the surtax proposal. Apparently some people believe it is a flat 5 percent tax, which would be regressive. The fact is, it is quite progressive since it is a percentage of the amount of tax payable by reason of our normal progressive income tax rates. Thus, an individual taxpayer with a taxable income of $11,700 would owe an additional $78 as a result of the surtax,and a taxpayer with a taxable income of $24,150 would owe an additional $293.

Q: Why tie the unemployment and other aid programs to a tax increase?

A: When will we learn that there is no alternative to paying for Federal programs? It's high time public officials leveled with the American people. If we don't have the courage to raise taxes to pay for new spending programs, then people are forced to pay through the most regressive and cruelest tax of all -- inflation.

If we are going to have programs to cushion the adjustment, taxpayers must pay for them. If not, if we cop out now and resort to more economic pump-priming, we face even worse inflation down the road -- which, in turn, will lead to another economic slump and more unemployment.

Q: Will the 5 percent surtax bring in enough additional revenues to balance the budget?

A: No, it will not. The revenue from the proposed 5 percent surtax will pay for the unemployment and other personal assistance programs recommended by the President, as well as liberalization of the investment tax credit. The budget will still be in deficit by some $8-10 billion for this year.

If we can keep the deficit within a reasonable range in fiscal 1975, we can then move toward balance in later years. The era of loose Federal budgets can, and must, be brought to an end.

Q: What are your plans to deal with unemployment if it worsens?

A: A solid unemployment compensation system is now in place and we have proposed to the Congress that it be extended and expanded. In addition, we have submitted legislation to create a Community Improvement Corps, which would provide temporary employment for out-of-work men and women who have exhausted their unemployment benefits.

Other action would create more private sector jobs, including the extension of loan funds to aid the housing industry and our recommended expansion of the investment tax credit. Basically, however, the ultimate way to provide more jobs lies in reduction of inflation, restoration of consumer confidence and stabilization of the economy.

Q: Many are advocating a return to wage and price controls. Why not?

A: Because they are destructive of both our economy and our freedoms. They deal with the results of inflation rather than the causes, like taking aspirin to attack a fever rather than curing the infection.

In 1972-73 controls proved themselves ineffective in holding down inflation. And where controls do in fact suppress prices and wages, they create distortions. In some of our basic industries like steel and paper, profits squeezed down by controls forced curtailment of expansion which resulted in present shortages. Thus, controls eventually increased the pressures on prices rather than lessened it.

Normally, when the demand for a product rises in relation to the supply, for whatever reason (such as the cut-off of oil supplies by the Arab countries in late 1973) the price of that product rises. This usually causes the profits of those companies who supply the product over the short run to rise, but more importantly, it increases the profit opportunities for new producers who might start producing the product. When these new suppliers increase the supply in relation to the demand and old producers increase production, the price of the product will drop again.

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Price, wage and/or profit controls frustrate and distort this process. In the first place, not all prices, wages and profits can ever be controlled by the government, particularly the prices of imported raw materials. Second, by freezing prices, wages and/or profits, the incentive for anyone to increase the supply of a product is removed because the profit potential is removed. In fact, existing producers who see their costs rise often just stop producing completely. As a result, over a period of time, the supply of the product shrivels up, thus further aggravating the demand pressure for the product, ultimately resulting in rationing, black markets, curtailment of expansion, flow of capital and goods out of the United States where profit opportunities are better, and many other results that are diametrically opposite to the objectives that the price controllers are attempting to achieve.

Controls, in summary, distort investment decisions and the allocation of resources, distort markets and exports, keep natural forces from reacting against economic defects, and give a false impression of action which delays truly effective remedial action.

Congress itself has, in effect, recognized the failure of controls to solve the problems of inflation by permitting the President's control authority to expire early this year.

Q: How can high corporate profits be justified in a period of such economic difficulty like today?

A: Double-digit inflation has done strange things to corporate profits. Some of the conventional accounting techniques used by corporations have proved to be inaccurate and misleading, now that inflation has become so rampant. They understate the replacement cost of both inventories and capital equipment, and thus overstate profits. They create an illusion of rapidly rising profits when the actual record of profitability is weak.

In addition, corporations have to pay taxes on those illusory profits, and to some degree they pay dividends from them as well. As a result, corporate cash flow has been squeezed hard: the retained earnings of nonfinancial corporations, after adjustment for the understatement of replacement costs of inventories and capital equipment, was down to $3 billion in 1973, less than one-fifth of the 1965 level.

Q: Why should profitable business operations be desirable?

A: Because the best way to reduce inflation is to increase supply, and this requires adequate technology and productive capacity and human and material resources. These variables all have long lead times, and our system relies on the private sector to develop these capabilities. The government influences these development efforts, but basically there is only one real motivation to make these capital and human investments -- the expectation of profits. If we don't have adequate profits now, we suffer later.

In effect, profits are the fuel of the engine that pulls the train of American business and industry, -- the train that carries as cargo the jobs of the working men and women of this nation.

Q: How do you reconcile the fact that prices have climbed so fast and that corporate profits are not all that good, but that workers' real income is down 4 percent in the past year? When prices go up, doesn't somebody reap a benefit?

A: It is difficult to identify which groups gain and which lose from inflation. In the present case, however, it is easy: food suppliers and the owners of oil, both here and abroad, have been the primary beneficiaries.

The real income of nonfarm workers went down because the enormous increases in food and fuel prices caused a transfer of real income out of the pockets of nonfarm workers. To get the food and fuel he wants (at the now-higher prices) the nonfarm worker must give up more of his income to farmers and owners of oil.

Thus, the loss of real purchasing power that nonfarm workers suffered this past year was not his employer's gain. That money did not go into corporate coffers. Operating profits of corporations generally have been declining since early this year.

Q: But what about high oil company profits?

A: I have consistently stated that current oil industry profits represent to a considerable extent a windfall due to the rigging of world crude oil prices by the Organization of Petroleum Exporting Countries. I have also consistently supported legislation we proposed a year ago to tax away these windfall profits as a way to prevent one sector from profiting unduly at the expense of the rest of the economy.

At the same time, we have compared the profitability of the oil industry to that of 28 other industry categories over the past 16-year period, and find that the industry's profitability, when viewed over a reasonable time period, falls within the normal experience of most major U. S. industries. And we must recognize that adequate profits are essential to the development of adequate future oil supplies.

Q: What about energy conservation? When are we going to start? With what? Gasoline rationing? Or an increase in the gasoline tax?

A: Energy conservation is essential to our national effort to achieve greater independence from high-cost and unstable foreign oil imports. President Ford has set a conservation goal of one million barrels a day by the end of 1975. We believe we can achieve that goal through measures outlined by the President in his economic message of October 8, 1974. Included in this program is a plan to require oil and natural-gas-fired plants to switch to coal and nuclear power; a requirement that the automobile industry develop increased gasoline savings, and a more rigid enforcement of the 55-mile-per-hour speed limit.

Further, there are a series of mandatory conservation steps for government and voluntary measures for the American people. This program can work. However, the President has made it clear that if immediate reductions are not achieved, he will seek more stringent means to insure that United States dependence on foreign supply is reduced. Whatever steps are necessary will be taken, but I still believe that gasoline rationing must be a last resort.

It is important, however, to emphasize that conservation alone is not enough. We must move aggressively to develop our domestic energy resources. Together, increased production at home and a hard-hitting program of energy conservation can move us toward self-sufficiency.

Q: Will the coming period be anything like the early 1930s? Is the average citizen protected against an economic collapse?

A: Economic conditions today are totally different from those of the 1930s. We have Federal insurance of bank deposits. The Federal Reserve System is committed to avoidance of a credit crunch and to a continuing moderate expansion of money and credit. In the early 1930s the money supply contracted by about one-third. And unemployment then rose to 25 percent of the work force compared to a little over 6 percent today.

We have a very substantial unemployment compensation program in being and have recommended a further expansion of that program, plus a larger public service employment program. We have other income-maintenance programs -- social security, food stamps, public assistance, etc. -- that will not decline even if general business activity is depressed. We also have a large part of our work force employed in economic sectors that are essentially depression-proof.

For all these reasons, the economy is much less vulnerable to an economic collapse than it ever was before.

Q: How soon can we lick our economic problems and get back to stable, prosperous growth?

A: While we can hope to see a turn-around in 1975, long-lasting solutions will not come quickly or easily. Inflationary forces have become deeply embedded in our economic structure and will take time to get wrung out, demanding both consistent and persistent policy approaches.

The hard fact we face is that America is at a historic crossroads in balancing consumption demands against the production capacity of the matchless economic machinery we have built up over the centuries. And the problem is bigger than simply meeting the painful concurrent problems of inflation and recession, serious as they are.

As a nation, we have been indulging in a consumption binge. We have been using up our inheritance and borrowing from the future, at one and the same time. In effect, we are burning the candle at both ends -- and the candle is getting shorter.

On one hand, America now faces vast, rapidly rising needs to devote more of its output to capital investment -- to replacing, modernizing and expanding our factories, mines, farms and other productive facilities. We have been falling far short of meeting this imperative. We are in the dangerous position of people on a ship whose hull is slowly rusting away through lack of adequate repair and maintenance.

The record shows the U.S. has been plowing one of the lowest ratios of gross national product back into capital investment of any major industrialized nation. And as a result, we are suffering from the lowest rate of productivity increase -- the very keystone for high living standards.

Speeding this drift toward economic crisis, we have been borrowing from the future in order to expand living standards today -- through an enormous expansion in debt at the family, corporate and governmental levels. Government itself has set a disastrous example of profligacy.

In summary, we have been living beyond our means. And the day of reckoning has now arrived.

Q: What can the average person do about inflation and our other economic problems?

A: The American people are the key to solution. Each of us can do many things to conserve oil, electricity and other energy resources. We can cut waste in food consumption. We can cut waste on the job -- and support efforts to boost productivity in office and factory. We can "buy smart" and resist price gouging wherever we find it. And we can demand an end to government deficit spending and support pay-as-you-go policies for government programs for all time to come. Indeed, this is the most important single step that can be taken to restore both confidence and economic order.

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

RESULTS OF TREASURY'S 134-DAY TAX ANTICIPATION BILL AUCTION

Tenders for $2.25 billion of 134-day Treasury Tax Anticipation bills to be issued December 3, 1974, and to mature April 16, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

High	- 97.267	Equivalent annual rate 7.342%	
Low	- 97.225	Equivalent annual rate 7.455%	
Average	- 97.236	Equivalent annual rate 7.426%	1/

Tenders at the low price were allotted 56%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 31,575,000	$ 10,695,000
New York	3,470,235,000	1,676,815,000
Philadelphia	25,310,000	20,310,000
Cleveland	195,540,000	90,540,000
Richmond	75,445,000	36,005,000
Atlanta	16,000,000	12,000,000
Chicago	355,850,000	83,500,000
St. Louis	43,015,000	40,015,000
Minneapolis	24,500,000	16,500,000
Kansas City	39,545,000	15,745,000
Dallas	11,655,000	3,215,000
San Francisco	615,625,000	245,305,000
TOTALS	$4,904,295,000	$2,250,645,000 2/

1/ This is on a bank-discount basis. The equivalent coupon-issue yield is 7.74%.

2/ Includes $ 22,745,000 noncompetitive tenders accepted at the average price.

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FOR RELEASE 6:30 P.M. November 21, 1974

RESULTS OF OFFERING OF $1 BILLION STRIP OF WEEKLY BILLS

Tenders for additional amounts of five series of Treasury bills to an aggregate amount of $1,000,000,000, or thereabouts, to be issued December 4, 1974, were opened at the Federal Reserve Banks today. The amount of accepted tenders will be equally divided among the five issues of outstanding Treasury bills maturing December 12, 1974, December 19, 1974, December 26, 1974, January 2, 1975, and January 9, 1975. The details of the auction are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	Price	Approximate equivalent annual rate based on 22 days (average number of days to maturity)
High	99.560	7.200%
Low	99.511	8.002%
Average	99.540	7.527% 1/

Tenders at the low price were allotted 14%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 86,000,000	$ 36,000,000
New York	1,376,400,000	781,400,000
Philadelphia	---	---
Cleveland	---	---
Richmond	---	---
Atlanta	125,000	125,000
Chicago	112,000,000	87,000,000
St. Louis	1,250,000	1,250,000
Minneapolis	8,000,000	8,000,000
Kansas City	7,500,000	7,500,000
Dallas	100,000	100,000
San Francisco	80,000,000	80,000,000
TOTALS	$1,671,375,000	$1,001,375,000 2/

1/ This is on a bank-discount basis. The equivalent coupon-issue yield is 7.67%.

2/ Includes $1,375,000 noncompetitive tenders accepted at the average price.

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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
726 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20506

FOR IMMEDIATE RELEASE
Thursday, November 21, 1974

For information call:
(202) 456-6757

SUGAR HEARING WITNESS LIST

(In Order of Appearance)

November 25 and 26, 1974

The hearings will be opened by Chairman of the Council on Wage and Price Stability William E. Simon followed by Council Member Virginia Knauer and Bruce Walter of the Council staff.

Senator Pete V. Domenici of New Mexico

Congressman Peter Peyser
New York, 23rd Congressional District

Congressman Dawson Mathis
Georgia, 2nd Congressional District

Congressman-elect Anthony J. Moffett
Connecticut, 6th Congressional District

Eleanor Guggenheimer, Commissioner
Department of Consumer Affairs
New York, New York

Panel of Consumer Representation:
Aileen Gorman, National Consumers Congress
Carol Foreman, Consumer Federation of America
Ellen Haas, National Consumers League

Irvin A. Hoff, President
U.S. Cane Sugar Refiners Assoc.
Washington, D.C.

Horace D. Godfrey
American Sugar Cane Leagues
Washington, D.C.

James Marshall
Hawaiian Sugar Industry
San Francisco, California

David Carter, Executive Vice President
United States Beet Sugar Assoc.

Richard Blake
National Sugar Beet Growers Federation
Washington, D.C.

Earle MacHardy, President
New York Coffee and Sugar Exchange
New York, New York

Joseph M. Creed
Biscuit and Cracker Manufacturers Assoc.
Washington, D.C.

James Mack
National Confectioners Assoc.
Washington, D.C.

William Quinlan
Associated Retail Bakers of America
Washington, D.C.

Ken Mullen, President
Massachusetts Retail Bakers Assoc.
Belmont, Massachusetts

John Ghi
Representative for Washington Area
Retail Bakers Association
Washington, D.C.

Leonard Halpert, President
Assoc. of Manufacturers of Confectionary and Chocolate
New York, New York

John DeConsini, Executive Vice President
Bakery and Confectionary Workers Int'l Union
Washington, D.C.

Arnold Mayer
Legislative Representative of the Meatcutters
and Butchers Workmen - AFL-CIO
Washington, D.C.

Robert Bogucki
Counsel to Local 1814
International Longshoremen's Association
New York

Abe Weiss
Legislative and Research Director
The Distillery Rectrifying, Wine
and Allied Workers of America
Englewood, N.J.

Patrick Mullen
National Sharecroppers Fund
Washington, D.C.

James Herrman
Migrant Legal Action
Washington, D.C.

Max Weiner
Consumers Educational and Protective Association
Philadelphia, Pa.

Phyllis Reed
Concerned Consumers
Westchester, Pa.

Sister Carol Coston
Network
Washington, D.C.

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FOR RELEASE UPON DELIVERY, NOVEMBER 21, 10:00 A.M.

STATEMENT OF JOHN A. BUSHNELL
DEPUTY ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE HOUSE SUBCOMMITTEE ON MERCHANT MARINE
THURSDAY, NOVEMBER 21, 1974 AT 10:00 A.M.
ROOM 1334 LH OB

Mr. Chairman and Members of the Subcommittee,

I am pleased to appear before you to testify on H.R. 17048, a bill intended "to protect the domestic fishing industry by granting to it the same protection granted to coastwise trade." I welcome this opportunity to appear before your subcommittee today because some aspects of the bill conflict seriously with long-established U.S. policy toward foreign investment in the United States. Although the domestic fishing industry is a modest sector of total U.S. industry, the issues raised by H.R. 17048 are of some consequence.

H.R. 17048 would amend section 2(a) of the Shipping Act of 1916 (46 U.S.C. 802(a)) to require that any corporation, association or partnership operating any vessel in the American fisheries be 75 percent owned by citizens of the United States. Under existing law, fishing vessels operating in U.S. waters are subject to less stringent U.S. ownership requirements. In addition, the bill would amend section 4132 of the Revised Statutes to restrict corporations eligible to register, under the U.S. flag, vessels used exclusively in foreign trade. Present law permits a corporation to register under U.S. law a vessel to be used exclusively in foreign trade, provided only that its chief executive officer, chairman of the board of directors, and a specified number of its directors are U.S. citizens. H.R. 17048 would impose the additional requirement that the corporation owning the vessel be more than 50 percent owned by U.S. citizens.

The Department of the Treasury opposes enactment of H.R. 17048 because this legislation would directly conflict with our general policy of neutrality toward, and national treatment of, foreign investment in the United States.

By neutrality in investment we mean that investment capital should be free to move to its most productive use in response to market forces, with the minimum of distortion resulting from national policies affecting investment. Maximum reliance on free market forces to direct worldwide investment flows will benefit the United States and all nations. This policy includes the right of establishment in the United States for foreign investors.

U.S. policy also provides for granting foreign investors national treatment, which means they should be treated equally with domestic investors, subject to the same laws and obligations, and guaranteed full protection under them.

In summary, the United States treats foreign investment on a basis of equality with domestic investment and refrains from imposing artificial impediments or restrictions on foreign investment except where absolutely necessary on national security grounds or to protect an essential national interest.

This policy helps investors use their funds in areas where they have experience and special skills and thereby increases the efficiency of resource use and maximizes output worldwide. A U.S. investor with experience in metallurgy, for example, may find the most efficient use of his funds is in a foreign country while an investor from that country may find that his opportunities are better here than at home.

H.R. 17048 would restrict foreign investment in vessels operating in the U.S. fisheries and hence would violate our nation's policy of neutrality toward foreign investment. No case has been made that such a restriction on foreign investment is necessary to protect our national security or essential national interests, and it does not appear that such a case could be made. Accordingly, it appears that the bill is clearly contrary to U.S. policy.

Furthermore, enactment of H.R. 17048 could have a disruptive effect on investment in the domestic fisheries industry by requiring that all corporations, partnerships, or associations operating vessels in the American fisheries be 75 percent owned by U.S. citizens as of the date of enactment.

In addition, I would like to note that while the bill is ostensibly designed to extend U.S. ownership requirements to fishing vessels in American fisheries, it would drastically restrict corporations eligible to register and document, under U.S. law, vessels engaged exclusively in foreign trade. The proposed bill would subject registration of these vessels to the additional requirement that the corporation owning the vessel be more than 50 percent owned by U.S. citizens. This provision appears entirely unrelated to protecting the American fishing industry. I believe such a provision could have an adverse effect on ship financing of our U.S. merchant fleet and might well result in a loss of jobs to American maritime labor.

U.S. policy regarding international investment stresses reliance on market forces in the world economy and a desire to minimize restrictions. A two-way flow of investment between the United States and other nations can benefit all parties, and any attempt by the United States to impose restrictions on foreign investment would be detrimental to our economic interests. It is important to note that the United States has over $107 billion of direct investment abroad, compared to foreign direct investments in this country of $18 billion. The example we set in allowing foreign investment to come into the United States can significantly influence the attitudes and policies of other countries toward our investments. Enlightened self-interest requires that we continue to follow a policy of hospitality toward foreign investment rather than reverse our position.

For the better part of the period since 1945, the United States and other countries have made a strong concerted effort to reduce the shackles and artificialities that were imposed on the international economic system during the depression and the war and early postwar years. We made this effort because trade and investment are intricately interrelated. Now, at a time of many uncertainties and of temptations for nations to take restrictive actions affecting investment and trade, important issues relative to international investment are being examined in a number of international organizations. For example, the Organization for Economic Cooperation and Development has an ongoing exercise on international investment and the activities of multinational corporations, and various U.N. bodies are dealing with investment and multinational corporate issues. The United States has taken the position that efforts toward a liberalized system of international trade and a more realistic monetary system are affected by our actions in the field of international investment, and that the work in the various international bodies should not erode our basic efforts to reform the international economic system. It is essential that the United States avoid policies or measures that might be interpreted as a retreat from our efforts to liberalize investment arrangements throughout the world.

Last year the Executive Branch reviewed its policy on international investment and reaffirmed that U.S. interests are best served by continuing freely to admit foreign investment and by treating foreign investment on a basis of equality with domestic investment. We also concluded, however, that we need more and better information in this area. Accordingly, the Administration supported S. 2840, "The Foreign Investment Study Act of 1974," which President Ford signed into law on October 26, 1974. This act requires the Departments of Commerce and Treasury to undertake comprehensive studies of foreign direct and portfolio investment in the United States. These surveys cover data for 1974 and an interim report of the results will be made to the Congress 12 months after the date of enactment to be followed by a full and complete report, together with recommendations, within 18 months of the date of enactment. However, in light of the widespread interest in foreign investment in the United States, the Executive Branch is presently making a comprehensive compilation of existing requirements to report foreign investment in the United States, including the statutory authority under which the information is gathered and whether there are any constraints on its use. This review is being done on an urgent basis so that the Executive Branch and the Congress will have information on which to base judgments whether further action may be required. Thus, we recommend that further consideration of any legislation on foreign investment, including H.R. 17048, be deferred until the results of the various reviews and studies have been considered.

I should like to conclude my remarks by referring to President Ford's comments on signing the Foreign Investment Study Act. After noting that the Act is intended for information gathering only and does not in any sense reflect a change in our traditional open-door policy toward foreign investment, the President remarked:

> We continue to believe that the operation of free market forces will direct worldwide investment flows in the most productive way. Therefore my Administration will oppose any new restriction on foreign investment in the United States except where absolutely necessary on nation security grounds or to protect an essential national interest.

I will be happy to answer any questions from members of the Committee.

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ADDRESS BY WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE RUBBER MANUFACTURERS ASSOCIATION
L'ENFANT PLAZA, WASHINGTON, D.C.
NOVEMBER 21, 1974

It is a great pleasure to join the members of this Association for your annual convention and to share with you a few thoughts on the nation's economy.

For many months, you have been bombarded with so many dismal facts and figures that many of you may feel discouraged about the economic outlook. Within only a year's time, we have experienced the cultural shock of gasoline shortages, an explosive rise in food and fuel prices, a scarcity of mortgage credit, double-digit inflation, the continuing inability of the Government to control spending, and now a recession.

Not surprisingly, the American people have become confused and apprehensive. A respected poll taken last month showed that 45 percent of our people are now expecting another Great Depression. That poll also revealed that economic suffering, both real and imagined, is becoming much more pervasive. Fully one-third of the families interviewed considered themselves in economic distress, and their social resentment was rising.

It appears to me that one of our greatest dangers today is to be swept up in a panic psychology, allowing our worst fears to dominate our thoughts and guide our actions. Certainly there are those within our society who actively pander to our fears. Popularly called the "prophets of gloom and doom," they seem to take a perverse pleasure in foreseeing a disaster around every corner.

I can well remember the fall of 1973 when the Arab nations slapped on the oil embargo and oil prices began shooting up. Almost immediately there were dire predictions that the Western World was heading toward economic strangulation. More than one Congressman foresaw cold homes and closed schools, while others predicted unemployment rates in the neighborhood of 8-10 and even 12 percent.

In my opinion, the cries of imminent disaster were unjustified by the facts and ignored not only the flexibility of our economic system but also the ability of the American people to rise to a challenge. We went to work within the Administration with a program that critics thought was far too timid--in the same way they think our economic program is too timid today--and through patience, determination and a large degree of voluntary sacrifice by the American people, we came through that emergency with only minor dislocations to the economy.

Early this year, the prophets of despair shifted their focus to Watergate and the so-called crisis of the Presidency. Again there were dark predictions that the Republic could not stand the strain, that the Government would come to a virtual halt, and that our democracy was headed for the scrap heap.

But experience once again showed that it was unwise to sell the American system short. The Congress proved that it could act responsibly, the work of Government went forward, and our people discovered that our political institutions were stronger and more resilient than anyone believed.

I make this point because we could easily fall into a trap on the economy. If we become captives of the more extreme rhetoric about the economy--if we are too quick to expect the worst and too impatient to work for the best--then we are very apt to choose the wrong solutions for our economic problems.

I am not here to deny the existence of those problems. They very clearly exist, and they are deeply embedded in our economic and social structure. But there is no real mystery about their causes, nor is there any mystery about the long-range cures. We have both the strength and the resources to solve them. The serious question before us is whether we have the wisdom and courage to take the right medicine.

As President Eisenhower once observed, a crisis need not stampede men into headlong panic. "A crisis," he said, "is also the sharpest goad to the creative energies of men, particularly when they recognize it as a challenge to their every resource, and move to meet it in faith, in thought and in courage." It is in that spirit that we must approach the crises of the hour.

Let me turn briefly now to three of the major concerns about the economy, and give you my own assessment of what we must do to resolve them.

The Oil Challenge

One concern frequently expressed is the fear that the oil cartel has our economy in a dangerous hammerlock.

For proof, it is pointed out that only 13 months ago the average payment to producing countries for a barrel of oil--using Saudi Arabian light crude as a benchmark--was less than $2; today it is approximately $10. This year alone the OPEC nations will have $60 billion in earnings and if present trends continue, their total accumulations by 1980 could exceed $500 billion which they will not spend on imports of goods and services. Clearly, none of the consuming nations can afford an indefinite continuation of these conditions.

Yet I remain confident that the oil crisis can be overcome, and I do so on the very solid grounds of political and economic realities. A nation that can tame the wilderness, that has the most dynamic free marketplace in the history of man, that can lift the standard of living to heights hitherto unknown, and can place men on the moon--that nation, if it allows its economic system true freedom, is not going to surrender to the sudden threat of extortion.

We do not seek a confrontation with the nations of the OPEC Bloc. We recognize and support the legitimate aspirations of these nations to accelerate their own development. But we also believe that by ending their artificial rigging of the markets and lowering oil prices substantially, they could still be certain of achieving their development objectives. Until they do adopt more acceptable policies, we will press forward vigorously to solve these problems on our own--and we know that we can succeed in that endeavor.

Oil is not immune to the forces of supply and demand, as the producers well know. The sharp jump in prices has already resulted in somewhat reduced oil consumption around the world--and as the passage of time permits further adjustments, those reductions will be far greater. To maintain their prices, the OPEC nations have cut production so that today their excess capacity has reached the level of nearly 8 million barrels a day--five times what it was before the embargo.

In the face of high prices, consumers are also accelerating development of their own sources of energy which, in time, will cost them less than the current price of OPEC oil. If the OPEC nations persist in cutting back output in order to maintain their prices, they will find that both their market and their income have been drastically eroded.

Let us recognize that the world's oil and energy resources outside the OPEC bloc are even larger than inside. Here in the United States, our oil production potential is enormous, for we have both new sources off our shores and in the Arctic and older sources which can be developed through improved and more intensive methods of drilling.

We are not alone in our good fortune. In the past year alone, 26 significant new oil discoveries have been reported outside the OPEC bloc. Proven North Sea reserves have doubled since last fall; Mexico has discovered enormous new fields; and even China has announced finds that allow it to become a significant oil exporter.

Altogether the recent finds outside OPEC have an estimated production potential of 13 million barrels per day by 1980--all of which would reduce OPEC's potential market. And this doesn't even include the oil which will be flowing from Alaska and the Outer Continental Shelf.

It has been our hope that the OPEC nations would soon recognize that their policies were in neither their interests nor ours. We have recognized, however, that logic and moderation might not prevail in the short run, and for that reason the United States for the past year and a half has been quietly but firmly laying the groundwork for a more effective response to this challenge by the major consumer nations.

Last February, at our invitation, a dozen consumer nations gathered here in Washington for the first International Energy Conference. Out of that meeting has come a series of agreements among the major consumer nations to coordinate plans for conservation and production more closely and to share resources in the event of an emergency.

In many meetings with senior officials of other nations over the past several months, Secretary Kissinger and I and our senior deputies have been discussing a comprehensive, new plan that would build more solid foundations for all consumer nations dealing with the oil crisis. The heart of our proposal, which Dr. Kissinger revealed publicly last week, is to set up a major new financial mechanism in association with the OECD to provide stand-by financial support for participating nations that find themselves in trouble. The private and public mechanisms now in existence have done a good job in recycling the enormous flows of petrodollars, but we recognize that a financial safety net may be needed for some countries. We recommend a facility with total commitments for loans or loan guarantees by all members of $25 billion in 1975, and we envision that an additional $25 billion might be needed in 1976.

There are several other important features to this proposal. In order to participate in the plan, a nation would have to join in a common conservation effort. Our goal is to cut oil imports by three million barrels a day among all participants by the end of next year. We also envision that this plan would lead to still greater cooperation on production efforts, stronger efforts to help the developing countries, and eventually, a dialogue between consumer and producer nations.

The progress we are making on several different fronts--in diplomacy, in conservation, and in production--as well as our potential for the future all convince me that with proper leadership, we will soon prove that this is a crisis we will overcome. That is why I continue to believe that it is no longer a question of <u>whether</u> oil prices will come down, but <u>when</u> they will come down.

Fear of a Great Depression

A second concern which I hear frequently today is the fear that we are heading pell-mell toward another Great Depression.

In my judgment, the current economic malaise will go down in history as a recession, but I see no basis upon which it is reasonable to expect a depression.

While the economy has a number of weak spots--notably in housing and consumer spending--it also has continuing strengths. Plant and equipment spending continue at a high level, and there are record backlogs of unfilled orders. Total employment also continues at a record level, and despite all of the talk of world-wide economic collapse, American exports continue to grow.

We must also take into account the enormous structural changes that have been made in the economy since the 1930's which make it far less vulnerable to a Great Depression:

--We now have Federal insurance of bank deposits and a Federal Reserve that takes its lender-of-last-resort responsibilities very seriously.

--We have a Federal Reserve that is also committed to a policy of reasonable growth in the money supply; by contrast, the money supply contracted by a full third in the early 1930's.

--We have an Administration and a Congress which are committed to maximum employment by the Employment Act of 1946.

--We have a strong unemployment compensation system for which we have proposed an expansion.

--We have proposed a major expansion of the current public service program which would provide jobs for those who would have the greatest need.

--We also have income maintenance programs such as Social Security, Supplementary Security Income, food stamps, etc., which mean that the basic income necessary for family support would not be wiped out even if general business activity is depressed.

--Finally, we have had a remarkable change in the nature of the work force, so that far more people work in jobs which are traditionally less sensitive to recessions; indeed, substantial numbers on our work force are in jobs such as Government Service which are virtually depression-proof.

For all of these reasons, the economy is much less vulnerable and the American people are much better protected than ever before against the threat of a depression. In my judgment, I would repeat, we should have no real fear of plunging over the economic precipice.

Inflation: Our Number One Domestic Problem

While a depression does not pose an immediate danger, it is clear that we must continue to grapple with stagnation in the economy and that our efforts must take place in the context of the worst peacetime inflation in our history.

These difficulties, inflation and stagnation, are inextricably bound together. In fact, the inflation is a major cause of much of the weakness in the economy. It was the high rate of inflation, through its impact on the financial markets, that dried up the supply of mortgage credit and sent the housing industry into a tailspin. And it was inflation, through its debilitating effect on consumer confidence, that caused the biggest reduction of consumer retail purchases in postwar history. These are the two weakest sectors of the economy, and inflation is the culprit in both cases. I stress this point because it is often overlooked and yet it is vital in understanding what remedies must be applied. Once we recognize that inflation is at the root of so many of our difficulties, then we can see that we must concentrate our attack first and foremost upon inflation and not succumb to the temptation of pumping new, inflationary stimulus into the economy.

Every survey I have seen shores up my conviction that inflation is our number one domestic problem, far outweighing the fears of the oil cartel or the fears of a depression. George Gallup finds that Americans are more concerned about inflation than any other issue they have faced in a quarter of a century. And a poll commissioned by Time magazine concludes that the "country is gripped with a galloping psychology of inflation in which all other concerns have been blurred by the one massive worry about high prices."

Let us look, then, at the causes of this inflation in order to see what must be done to cure it. A large part of the current inflation is attributable to a series of economic shocks, mostly arising outside our own economy. The most obvious ones were the quadrupling of oil prices during the past year, disastrous crop setbacks in 1972 and 1974, and the distortions caused by wage and price controls. Less obvious were the inflationary effects of a simultaneous boom that took place in virtually all industrialized countries in the early 1970's. And the devaluations of the dollar in 1971 and 1973--while necessary to correct the long-standing problem of an overvalued dollar--made our domestic products more attractive to foreign buyers and thus increased demand pressures here at home. Fortunately, none of these special factors should occur again in the foreseeable future, and each is now dissipating in force.

Even as these special factors work their way through our economy, however, we should recognize that there are other, more fundamental inflationary forces that have been mounting in intensity

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for more than a decade and now underlie our entire pricing structure. These are the forces of excessive stimulation pumped into the economy by the Government. Our only hope of bringing a substantial reduction in the rate of inflation is to center our attack upon them.

One of them is Federal spending, which has climbed alarmingly--from $100 billion in 1961 to $200 billion in 1970 and $300 billion in 1974. Coupled with our unwillingness to raise revenues, this explosive growth has meant that in only one of the past 14 years has the Government been able to balance its books. Federal deficits over the last decade have come to a staggering total of $104 billion. Moreover, we have created a number of off-budget lending agencies that draw heavily upon funds in private capital markets.

When the Federal budget runs a deficit year after year, especially during periods of high economic activity such as the ones we have enjoyed over the past decade, it becomes a major source of economic and financial instability. The huge deficits of the 1960's and 1970's have added enormously to the overall demands for goods and services, and have thus been directly responsible for upward pressures on the price level. Heavy borrowing by the Federal sector has also been an important contributing factor to the persistent rise in interest rates and to the strains that have developed in money and capital markets. Worse still, continuation of budget deficits has tended to undermine the confidence of the people in the capacity of our Government to deal with inflation.

Monetary practices over the past decade have been another element in this witches' brew. Between 1955 and 1965, the money supply grew at a rate of about 2-1/2 percent a year, and we enjoyed a period of reasonable price stability. Since 1965, the annual rate of increase in the money supply has more than doubled to 6 percent, and it is no accident that price levels have also shot upwards.

As one of my colleagues in the Government has said, we have a love-hate relationship with inflation. We hate inflation, but we love everything that causes it. We have been altogether too willing to engage in deficit financing and easy credit policies because they give us a fleeting sense of prosperity. We have been too ready to acquiesce to special interest groups who demand Government protection from the rigors of the competitive market--through import quotas against foreign competitors, through limitations on production, through direct Government support of high prices and wages, through restrictions on entry of competitors into the industry, through subsidies, and so forth.

We have acquiesced because it was easier to join them than fight them. The private interest has been triumphing over the public interest, the short-term over the long-term, and the political over the economic. And today we're paying the price.

By now, it has become clear to me and I hope that it is clear to you that we have more Government than we need, more Government than most people want, and certainly more Government than we are willing to pay for.

To counter inflation effectively, then, I urge that we pursue a consistent policy of moderation and restraint in our fiscal and monetary affairs. So far, the Federal Reserve has had to bear almost the sole burden of dampening inflation. Now we must redress that imbalance by reining in the growth of Federal spending. This means that if we pass new spending programs, we must also have the courage to raise enough taxes to pay for them. Beyond fiscal and monetary restraint, we must also enact effective programs to cushion the impact of inflation where it strikes with disproportionate force--programs such as low-income tax relief, extended unemployment benefits, and expanded public employment. Only by ensuring that the burdens of inflation are borne as equitably as possible can we win broad and durable support for the long-term fight against inflation.

We can and must remain alert to the problems of unemployment and other signs of recession, and we must take effective actions to counter their effects. By the same token, however, we must sternly resist the temptation to overheat the economy again. We should not abandon our policies of moderation in fiscal and monetary affairs in favor of a general program of stimulation. We have tried that before in years past, and each time we have found that we overheated the economy and ultimately made our problems worse. If we take the easy way out again this time, the pressures for new economic controls will be irresistible--and down the road we can expect even worse inflation and more unemployment than we have today.

Agenda for the Future

As we review the concerns that I have discussed here--the oil crisis, the fear of a depression, and rampaging inflation--it is apparent that we have slipped into an extraordinary mess in our economic affairs. Unfortunately, there is no quick fix or easy way out. It took us years to get here, and it will take time to get out. Yet it is equally apparent to me that over the long run we do have the means and the ability to lift ourselves out of the quagmire and restore the prosperity we have traditionally enjoyed. The agenda for the future is long, but it is not beyond our reach:

--We must sharply accelerate the development of our own energy resources, and we can do that if the Congress will pass the necessary legislation and if industry is given sufficient freedom to do the job.

--We must conserve energy more than we have in the past, calling forth the same degree of sacrifice that prevailed last winter.

--We must take effective action to deal with the sluggishness in the economy, enacting a series of programs that help those hardest hit and providing private industry with sufficient incentives to increase its productive capacity and provide more jobs.

--We must resist the temptation to overheat the economy again, always keeping in mind that our number one enemy is inflation.

--And to cure that inflation, we must stick to a policy of moderation and restraint in our fiscal and monetary affairs. This is absolutely essential.

--Finally and above all, we must stop tearing down America.

America is still incredibly strong, powered by the largest and most dynamic marketplace in the world. We have the resources, and we know the way to succeed. With firmness, with patience, and most importantly of all--with faith in ourselves--we will succeed.

I opened today with an observation from President Eisenhower. Let me close with another. "If history teaches us anything," he said, "it is this lesson: so far as the economic potential of our nation is concerned, the believers in the future of America have always been the realists. I count myself as one of this company."

Let us hope today that more Americans will join that company in the days ahead.

Thank you.

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FOR IMMEDIATE RELEASE November 22, 1974

TREASURY ANNOUNCES ACTION UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury, David R. Macdonald, announced today a tentative determination to modify the dumping finding on pig iron from Canada with respect to Quebec Iron and Titanium Corporation of Canada. Notice of this decision will be published in the Federal Register of November 25, 1974.

The Federal Register notice reads in part:

> ...sales of pig iron by Quebec Iron and Titanium Corporation since August 1971 have been at not less than fair value, and that...firm has given assurances that future sales of pig iron for export to the United States will be made at prices not 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 pig iron from Canada to exclude pig iron produced and sold by Quebec Iron and Titanium Corporation 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 January 1974 through June 1974, imports of pig iron from Canada were valued at approximately $10.7 million.

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FOR IMMEDIATE RELEASE November 22, 1974

TREASURY ANNOUNCES PROGRESS IN ARGENTINE COUNTERVAILING DUTY INVESTIGATION

Assistant Secretary of the Treasury David R. Macdonald announced today that the Treasury Department has been informed that the Government of Argentina has promulgated a decree on November 19 abolishing an export incentive payment, known as the "reembolso", on exports of non-rubber footwear. The decree becomes effective on December 19, 1974. "Nevertheless," Macdonald noted, "the Treasury countervailing duty investigation will continue, since the decree also creates a government agency which will handle exports of these products. Until details of this new arrangement have been analyzed, Treasury's inquiry cannot be terminated," he said.

Treasury had, on July 16, 1974, published in the Federal Register a Countervailing Duty Proceeding Notice against non-rubber footwear from Argentina. This action was taken pursuant to Section 303 of the Tariff Act of 1930 (19 U.S.C. 1303). Under this section, the Secretary of the Treasury is required

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FOR IMMEDIATE RELEASE November 22, 1974

EMERGENCY LOAN GUARANTEE BOARD FAVORS REVISED TEXTRON INVESTMENT IN LOCKHEED

Treasury Secretary William E. Simon, Chairman of the Emergency Loan Guarantee Board, expressed the Board's favorable reaction to the announcement today by Textron, Inc. and Lockheed Aircraft Corporation, the only borrower under the Emergency Loan Guarantee Program, that their Boards of Directors had approved revised terms of the plan for an equity investment by Textron in Lockheed and a restructuring of Lockheed's debt.

He noted that the agreement on the revised terms was a significant step forward in the efforts to carry out the plan which would enhance and better assure Lockheed's long-term prospects. From the standpoint of the Emergency Loan Guarantee Board, the plan would eliminate any further need for the Government guaranteed loan commitment to Lockheed and its banks.

Secretary Simon stated that the Board is hopeful that the conditions remaining to be satisfied, before the plan can be completed, will be met.

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FOR RELEASE AT 10:00 A.M.
MONDAY, NOVEMBER 25, 1974

STATEMENT OF
THE HONORABLE WILLIAM E. SIMON
BEFORE THE JOINT ECONOMIC COMMITTEE
10:00 A.M., NOVEMBER 25, 1974

I am pleased that you have scheduled early hearings on the U.S. proposals for international cooperation in energy and finance which were set forth publicly by Secretary Kissinger in his Chicago speech on November 14, and by myself one week ago in my speech before the National Foreign Trade Convention. As we indicated in our speeches, the ideas we were expressing were the outgrowth of quiet diplomacy over a period of many months.

The basic elements of our proposals, and their rationale, were described in my speech, with which I am sure you are all familiar. Today I would like to make some relatively brief comments which I hope will be responsive to the very important questions posed in your announcement of these hearings, and to describe briefly the work program and schedule in prospect for developing further the ideas we have presented.

The increases in oil prices levied by the OPEC producers beginning last October have imposed extensive costs on the world economy. High oil prices have exacerbated world inflation. Shifts in resources to adapt to the new energy balance will cause serious friction and unavoidable costs of structural adjustment. There is a real possibility that increasing reluctance to borrow to finance oil consumption will, as time goes on, lead some countries to seek lower levels of economic activity in order to preserve their financial positions -- and the world will lose heavily through foregone production. It is also reasonable to expect that OPEC nations will in the future use an increasing portion of their oil export revenues to finance greater transfers of real goods and services from the oil importing nations. Such increased OPEC imports could reduce the financial problems resulting from the oil price increases, but the real economic costs imposed would be much greater and the loss of real income associated with these transfers may add significantly to future inflationary pressures. In these circumstances, there is a danger that some countries will feel compelled to take self-protective actions that are disruptive to others and to the world economy, and the risk of possible retaliation and general resort to competitive restrictions cannot be ignored.

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The economic problems will not be equal for all countries, but -- directly or indirectly -- all countries are faced with dimmed prospects for economic growth and prosperity. I can think of no single change that would more improve the outlook for the world economy than a substantial reduction of the price of oil.

The underlying basis of our proposals is that a creative and coordinated response to the oil problem is needed by the world's major oil-consuming nations in which cooperative energy policies and cooperative financial arrangements are linked so as to provide the mutual insurance essential to protect the functioning of the world economic system, to promote greater energy independence, and thus to lay the foundation for an early reduction in oil prices.

Our hope has been that the OPEC nations would themselves recognize that their policies are inconsistent with their own interests and those of the world. We have taken every opportunity to convey our views to OPEC in this hope. We still believe that a well-prepared consumer/producer meeting can be a major element in reaching a constructive agreement on oil prices and production. But we believe it is crucial to the achievement of such an outcome to develop a concerted view and common policy on the part of the major consuming nations.

At present, OPEC nations do not believe that a reduction in oil prices is in their interest, and they continue to have the ability to support present prices or even further increases if they so choose. Unless major consuming countries act together to establish market conditions which alter this situation, there is little prospect that oil prices will soon come down.

The energy coordinating group established last February at the Washington Energy Conference has reached agreement on a plan of major importance for sharing of energy resources among consuming nations in time of emergency, has provided guidelines for cooperative long-run efforts in energy conservation, production, research and development, and was instrumental in the formation of the new international energy agency associated with the OECD to carry out this program. These steps have established a solid basis for cooperation among the consuming nations. Now we must move forward.

Our analysis of the forces underlying the oil and energy markets, and of the costs and dangers thrust on the world economy by the increase in oil prices, has reinforced our basic belief that it is the price of oil itself, not its financial repercussions, that is the real source of trouble in the world economy. We are not attracted to financing schemes put forward in isolation, for such proposals would simply address the symptoms of the problem and create a false sense

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of security. This conclusion has determined our basic approach in international discussions on energy and financing, has influenced our response to some of the many financing or "recycling" proposals suggested by others, and has shaped the financial proposals we ourselves have put forward.

Nevertheless, we believe that there must be a greater degree of assurance that financial needs can be met until the goal of reduced oil prices is achieved. A financial safety net which provides standby insurance to countries that are cooperating to reduce their oil imports and to maintain open economies is urgently needed. The industrial countries must take the lead and assume much of the burden for implementing such a program, for it is these countries that have the greater capacity to conserve and to contribute their resources and technology to the development of alternative supply sources, within their own borders or elsewhere. Moreover, these countries also can be expected to receive, collectively, the bulk of OPEC investments, without any need for special guarantees, above market rates or value indexing schemes. What is needed are standby arrangements -- private and public -- to provide insurance that funds will be distributed among the individual oil-importing states so as to avoid unnecessarily severe economic difficulties in particular countries.

Our proposal calls for the establishment of a major new mechanism in association with the OECD to provide standby financial support in case any participating country finds itself in economic trouble after having made reasonable efforts on its own part to resolve its difficulties. We have also proposed that IMF resources be more fully mobilized, and that consideration be given to creation of a trust fund managed by the IMF for concessional assistance to the developing countries most severely affected by the oil price increases. I will mention the main points of the financial arrangement among the industrial countries first, and then turn to these latter aspects of the U.S. proposal.

Several principles are fundamental to such an arrangement. First, the facility would be designed to support a concerted energy program among the major industrial countries, and participation would be linked with a commitment to cooperate in reducing dependence on oil imports. The facility is not a "free ride," unrelated to effective policy conditions and without a solid foundation of commitment. Secretary Kissinger and I have both suggested policy objectives and targets that might be adopted as part of this program. Other governments have their own targets in mind and have adopted specific policies with those targets in view. These obviously must be examined, sorted out, agreed upon and placed in an effective operational framework. I have no doubt that this will be a difficult task. But I believe it is possible and essential for us to agree on an effective program that will warrant U.S. participation in both its energy and its financial aspects.

Second, participants would also undertake to follow responsible adjustment policies and avoid recourse to restrictive trade measures or other beggar-thy-neighbor policies. I doubt that this principle needs further explanation.

Third, the facility must be large enough to do the job for which it is intended. Countries that agree to act together in energy need to be confident that if a financial emergency arises, credit will be available to them on reasonable terms. We have recommended a facility with total commitments by all members of $25 billion in 1975, as large enough to provide reasonable insurance and confidence to participants in a period of great uncertainty about the direction and magnitude of financial flows.

We regard a facility of roughly this magnitude as not excessive in present circumstances, if it is to provide nations with basic confidence in the security of their positions in dealing with the energy crisis. The further amounts which would be provided if necessary after 1975 will depend on the extent, if any, to which the facility is used next year and the situation prevailing a year from now. The facility is not a new "foreign assistance" gimmick. It is an integral part of a comprehensive effort to strengthen the financial security of the world economy. As such, we view the financial arrangements we have proposed very much as an insurance mechanism, not as a regularly used channel of financing. We hope that the basic confidence in the system that the facility can provide will strengthen the operations of the private markets, and make extensive recourse to the facility unnecessary.

Fourth, the facility would supplement and not replace the private markets and other official financing channels, and should for this reason do its lending on market-related terms. The private markets and official facilities already in place have been doing the job of redistribution of oil producers' funds to date, and we have no evidence that they cannot continue to do the job. The problems of financing higher oil bills can be managed until oil prices come down - not easily or without strain, but they can be managed. Substantial volumes of OPEC funds, probably $45 billion in the first ten months of this year, have been invested in a variety of ways. A little less than one-quarter of these funds has been invested directly in the U.S. market and about the same amount directly in the domestic assets of other industrial countries. The OPEC countries have also lent directly to other governments and transferred additional amounts to international institutions. In addition, substantial amounts have been placed in Euro-currency markets -- but the total, less than 40 percent, is not as large as many have assumed. For borrowers, all these investments represent potential sources of funds and provide a wide range of alternative financing channels.

But while the international finance system has worked well, we must recognize that individual countries could find themselves in economic trouble, with needed credit too scarce or too expensive to permit them to maintain open economies at appropriate levels of activity. The facility we have proposed would provide the backstopping that is needed to supplement existing channels of financing.

Fifth, decisions on the provision of financial support should be made by a weighted vote of participants and should be based on the overall economic position of the borrower, not on any single criterion such as oil import bills. The question of shares will be an important issue in setting up a facility of this nature. Various factors have been mentioned that might be taken into account, such as the size of the oil import bills of the member states, the relative value of gross national product, share in international trade, or some combination of these factors. The various possibilities will have to be carefully weighed, but our preliminary view is that the U.S. share should probably be somewhere between 25 and 30 percent.

I should also point out that in our current view, borrowing from the facility should not be related specifically to imports of oil. "Oil deficits" become increasingly indistinguishable from "non-oil" deficits. Access to this facility should be based on an overall judgment of a country's need taken in conjunction with its resources, its basic economic policies and the actions it is taking to reduce independence on OPEC oil.

Finally, we believe it important that whatever support the facility provides, all members should share the credit risk on the basis of their share of participation. As we envisage the management of this facility, a board composed of senior finance officials from participating countries would control all decisions on the facility's policies and operations. This Board would reach judgments on requests for assistance from the facility on the basis of the factors I just noted -- need, alternative sources of financing, basic economic policies, and actions to reduce dependence on imports of OPEC oil. There will be risk, but I believe these two factors -- the sharing of risk among all participants and the prerequisite of sound, cooperative general economic and energy policies -- will do much to create the conditions to make repayment possible and thus to reduce the financial risk. The much greater risk today is to stand by without acting to reduce our dependence on oil imports.

Apart from these basic principles, many details remain to be worked out. One such question is the manner in which the facility would obtain the funds with which to lend. We feel there are a number of advantages in having funds provided to the facility through direct lending by member governments rather than guarantees. The loan route is more efficient, it is cheaper, and it can be activated more quickly in case of emergency. Nevertheless, it may be desirable in establishing the facility to provide some flexibility on this score simply because national practices and legislative requirements vary widely. We would not want to rule out the possibility that some individual governments might choose to permit the facility to go into the capital markets of the world and borrow funds on the basis of their guarantee in lieu of lending directly.

It should be emphasized that the operation of the facility, whether it takes the form of direct lending or guarantees, would not require inflationary expansion of money and credit and, for example, need not lead to an increase in Federal Government debt held by U.S. citizens. OPEC revenues which are not spent on imports of goods and services must be invested in the group of oil-importing nations as a whole. The international financial problem is not one of the overall availability of funds but rather the pattern in which net flows of capital are channeled. The purpose of the facility is thus not to create new funds, but to rechannel net flows of already existing funds if this proves necessary because the distribution of flows among countries is inadequate.

I would note that we share fully the view that the oil exporters should assume a significant portion of the responsibility in the provision of financing. We would be happy to see the oil exporters invest and lend directly under terms that are appropriate both economically and politically. But they can avoid the risks of lending to particular countries if they wish to do so. We believe such direct placements are more likely if countries are confident that adequate insurance stands behind the system.

For the United States, our present thinking is that participation might best be accomplished through the Exchange Stabilization Fund. This Fund has the authority to engage in international lending operations for the purpose of stabilizing the value of the dollar and this would be a basic purpose of our participation in the proposed facility.

However, I assure you that we will consult with the Congress about the most appropriate way to proceed, and we will seek Congressional authority for U.S. participation in any facility.

The U.S. proposals are in no way intended to replace the International Monetary Fund as the permanent institution providing the basic financial support for a well-functioning world economy, or to limit its role to the provision of financial assistance to any particular subgroup of its membership. We will be working closely with the authorities of the IMF and its recently established Interim Committee in translating our proposals into an operating program. We expect the IMF's lending activity to increase in 1975. With its present resources, the IMF is in a position in 1975 to provide substantial additional support to any of its members on appropriate conditions and without further recourse to borrowings as undertaken by the IMF's oil facility this year. The fund has over $10 billion of currencies which are effectively available and usable, quite apart from its holdings of gold. We are prepared to support early measures to insure effective mobilization of the resources that the IMF now has. And to provide adequate resources in future years we are prepared, in the current review of IMF quotas, to support a substantial increase in Fund resources.

We are suggesting an initiative outside the IMF, in part because of the magnitude of the possible transfer requirements among the major industrial countries and in part because the terms and conditions of IMF financial operations are not appropriate to the exceptional circumstances we now face -- I discussed the critical relationships between our energy and financing proposals earlier. Moreover, it would be inappropriate, even if possible, to introduce into the IMF the full range of policy issues which must be taken into account when decisions and judgments are made with respect to financial support among major industrial countries.

A second major element of the U.S. financial proposal relates to the developing countries and the smaller industrial countries. For the developing countries it is essential that the major industrial countries maintain healthy, growing economies and open, efficient capital markets in the face of the oil crisis. A facility which will help to assure the maintenance of economic activity and orderly access to the capital markets in the industrial countries will assist the developing countries as well. These countries will also be able to make appropriate use of the resources of the IMF.

However, one group of developing countries -- those with the lowest per capita incomes and those seriously affected by natural disasters and other problems -- will require concessional assistance. We and others have been redirecting our concessional assistance toward these countries and urging the international financial institutions to do the same. We look to the oil exporters to provide a major part of the additional concessional funds needed by these countries because of the increase in oil prices. While the additional amount needed by these poorest countries -- perhaps $1.5 billion in 1975 -- is small in comparison with the oil exporters' surpluses, the sums involved bulk very large for the countries concerned because their needs are desperate.

The new Development Committee will address the problems of these countries on an urgent basis. We shall keep the availabilities of funds, as well as the efforts of developing countries to use available resources effectively, under continual review. As one way to help these countries, we have suggested the establishment of a trust fund managed by the IMF and financed on the basis of contributions from OPEC states and from other sources. We have requested that this suggestion be given urgent attention by ministers in the IMF Interim Committee and the IMF/IBRD Development Committee.

Under Secretary Bennett has just returned from a series of meetings in Europe where our and other proposals were introduced and discussed. At these meetings -- of the OECD's Working Party Three and Deputies of the Group of Ten -- other participants expressed interest and requested further elaboration. No commitments were sought or given.

It was agreed, however, that possible new cooperative arrangements should be studied urgently. The Deputies of the Group of Ten agreed to establish a working group to examine in greater detail the technical aspects of both the U.S. proposals and the quite similar proposals developed independently by the Secretary General of the OECD. This group will meet twice before Christmas and again shortly thereafter, with a view to finishing its report by mid-January.

A reduction in the price of oil is in the best interests of the oil producers and of the world as a whole. The proposals the U.S. has outlined provide the framework for collective action by the industrial countries to reduce their dependence on imported oil and to promote our mutual economic and financial solidarity. Success in this collective effort among the consuming nations will help establish the basis for resolution between consumers and producers of the oil issue. I urge your support in this effort, and welcome your comments and criticisms.

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FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
CHAIRMAN OF THE COUNCIL ON WAGE AND PRICE STABILITY
SUGAR HEARINGS
MONDAY, NOVEMBER 25, 1974

As Chairman of the Council on Wage and Price Stability, I am pleased to welcome all of you here this morning.

I asked Albert Rees to convene these hearings because we are determined to get to the bottom of the rising controversy over sugar prices.

Early this year consumers could purchase a one pound box of granulated sugar in the supermarket for 18 cents. That same box of sugar now costs 64 cents nationwide, and the price threatens to go higher still. Two weeks ago, between Monday and Saturday, New York shoppers saw the price of a pound of sugar rise from 64 cents to 71 cents -- more than 10 percent in one week alone.

The American housewife deserves to know what lies behind these stupendous price increases. She has a right to know whether she's getting a fair shake or just a shakedown. And that's what we intend to find out.

We recognize that a primary cause of the problem is the conflict between rising world consumption and poor crop productions. World consumption has exceeded production for the fourth year in a row, drawing down inventories to very low levels and placing significant pressures on prices. But we need a more complete explanation:

* We need to know to what extent poor crops and increasing demands have caused the problem.

* We must determine whether speculators are driving up prices.

* We need to find out whether commercial buyers are unnecessarily hoarding sugar and if so, what effects that is having.

* We need to determine whether farmers are growing as much sugar as we need.

* And we need to know whether the sugar companies are reaping excessive profits from this situation.

Many of you may be aware that the Soviet Union and some of the Arab nations have recently placed large orders for sugar. Because of our concern over prices, we have studied these purchases carefully and I can report to you this morning that we can find no evidence of a conspiracy between them to hoard or drive up the price of sugar. That is one idea we can dismiss immediately.

The Council that is conducting these hearings was created by law last August to serve as a watchdog agency in the fight against inflation. Let us all recognize that the Council has no authority to control prices or wages -- and that, of course, includes the price of sugar, the products that us sugar, and the wages of workers who produce these products. Nor do we seek any authority to impose controls. We strongly believe that controls only cause distortions and inequities in the economy, leading to higher unemployment and eventually more inflation. Sugar is a case in point: imposition of controls on this product would undoubtedly cause our supplies of imported raw sugar to be diverted to other countries which would create severe physical shortages here at home. We must use our ingenuity to find better answers than that to the problems that confront us.

The Council on Wage and Price Stability has no preconceived answers to the sugar controversy. We did not call these hearings to expound our own ideas or to point fingers, but to get the facts. When the hearings are over, the Council will report its findings and will make recommendations to the Economic Policy Board, which has been charged by President Ford with monitoring the sugar situation on a weekly basis.

We do not know what those findings or recommendations will be, but we do know this: we cannot sit back idly and watch the price of a basic commodity triple or quadruple in the space of less than a year without carefully evaluating all the facts of the situation. Higher prices for sugar are reflected in many other goods which depend on it -- bakery products, cereals, soft drinks, ice cream, candy, canned fruit and so forth. Moreover, the rise in the price of sugar is causing severe difficulties for small businesses in the bakery and confectionary industries and for the workers in these industries who are being laid off. We must work together to find solutions to these problems.

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FOR RELEASE ON DELIVERY

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REMARKS OF THE HONORABLE GERALD L. PARSKY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE AMERICAN-ARAB ASSOCIATION
FOR COMMERCE AND INDUSTRY, INC.
AT THE HOTEL PIERRE, NEW YORK, NEW YORK
1:30 P.M. EST, NOVEMBER 26, 1974

I am delighted to have the opportunity to be here to address the American-Arab Association for Commerce and Industry. By bringing together a unique combination of American business leaders interested in developing industrial relations between the Arab world and the United States, your organization is playing a vital and complementary role to what the U.S. government is seeking to achieve. Today, I would like to discuss with you our governmental objectives in this effort, at the heart of which is a desire to work cooperatively with the Arab world. We have not, and do not, seek confrontation with the oil producers. We are seeking to resolve our differences through mutual understanding and are striving to build a framework of broad economic cooperation between the U.S. and the Arab world.

In order for this objective to be fully realized, however, we must ensure that conditions exist which will foster free foreign trade and investment throughout the world. Everyone is becoming more and more aware of how interdependent our world is today. As such, it is important to recognize that the solutions to our problems lie in strengthening this interdependence -- not weakening it. Unconstrained bilateralism, artificial restrictions on supplies of goods or any efforts to distort trade and investment must be avoided by consumers and producers alike.

International Cooperation in Energy and Finance

This basic theme underlies the proposals for international cooperation in energy and finance as outlined recently by Secretary Kissinger and Secretary Simon. The policy involves three parts -- cooperation among the oil-consuming countries; the development of sound U.S. domestic energy policy that will reduce our dependence on foreign supply; and cooperation with the oil-producing nations. Because I have spent a good deal of time working on the third aspect of this policy, I would like to concentrate on it in some detail.

Cooperation Among Consumers

Before doing so, however, I would point out that the aspects of the proposal relating to consumer cooperation are part of our firm belief that in light of continued excessively high oil prices, we must combine our energy and financial policies if we are to maintain economic stability. With respect to the financial side of this cooperation, I believe there may be some confusion as to the evolution of the U.S. position.

The proposal for establishment of a new mechanism to provide stand-by financial support with assets of as much as $25 billion available for the year 1975 does not represent a shift in Secretary Simon's view or a change of U.S. policy. We have felt, and continue to feel, that our policy should be to place maximum prudent reliance on private markets, and we have also recognized that various forms of bilateral and multilateral financial facilities would be used to carry out those aspects of the recycling task which the private markets could not, or should not, seek to handle. The private sector and official facilities already in place have handled the recycling thus far, and we expect that they will continue to do so. Of course, there are limits to the extent that commercial banks can absorb the massive and growing volume of OPEC revenues, and the growth in bank assets will be slower in 1975 than it was this year. Yet, there is still plenty of room for growth in other segments of our private markets, including in particular the international and U.S. bond markets.

Nevertheless, we recognize the desirability of establishing a facility, apart from the IMF, which can supplement the private market and other official recycling facilities and provide a financial "safety net" for the major industrial economies. We think a particularly important aspect of this plan is the way it seeks to bind conservation efforts to assistance in financing so that the nations that have to call on this supplementary financing will be required to take the necessary policy actions to contribute to a common effort to solve the underlying problem.

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Cooperation with Producers

At the same time that this policy for financial and energy cooperation among the consumers has been evolving, we have been undertaking an intensive program of economic cooperation with the countries in the Middle East. THis has been done, both through the establishment of bilateral commissions with such countries as Egypt, Saudi Arabia and Iran and through less formal, though intensive, dialogue with such countries as Kuwait, Abu Dhabi and Qatar. Having had the opportunity to work closely in all these efforts, I have learned that the problems confronted, and in turn the aspirations expressed, by these people vary considerably. Too many view the countries of the Arab world as all the same. This is just not the case. The problems faced by Egypt with a large population base, great natural resource potential but severe financial difficulties are not the same as the problems confronted by Saudi Arabia with tremendous financial resources but with a very small population base and thus limited manpower resources. Such basic differences have resulted in differing forms of U.S. cooperation with these countries.

Egypt. Looking first at our work with Egypt, I believe this country probably offers enormous growth potential. Its relatively skilled labor force and literate population; its good climate and natural resources; and its domestic market of 35 million people plus access to the rest of the Middle East are central ingredients to economic development. However, there are basic economic and financial problems which Egypt faces and which must be solved if the potential is to be realized. Per capita income is only about $240 and efforts to improve this figure are burdened by a rapidly growing population that is increasing at about 3 percent a year. The heavy defense expenditures of the last decade left little for public investment in the non-defense sector and, as a result, most of Egypt's infrastructure is in need of rebuilding. Transportation, communication, sewage and housing are major problem areas.

We are convinced that the policy leaders in Egypt are seeking to improve this situation. Prime Minister Hegazy and Minister Taher Amin, both of whom I have worked with closely, are determined to make the necessary changes to strengthen Egypt's economy. We have stressed to them that private investment is the key to the development of Egypt's economy and that this investment will only come if there is a proper legal and institutional framework and a generally attractive economic climate. We are pleased with progress that has been made to date in establishing these underpinnings.

I do not mean to suggest that supplementary forms of financial aid to Egypt are not important. In fact, we have requested from the Congress $250 million for Egypt for fiscal year 1975, of which $170 million is targeted for Suez reconstruction and clearance and $80 million will finance commodity imports. Also, Egypt will be one of the main recipients of food aid shipments under our PL-480 program. For instance, we have signed agreements with Egypt for wheat in the amount of 300,000 tons, which makes Egypt on of the largest recipients under the program. In addition, we have arranged financing under CCC credits for cotton and tallow.

All of these forms of assistance are an important part of our cooperation; and with private investment will lead to a more viable and diversified economy and a sustained rate of growth. We have been working with the Egyptians on a number of initiatives that will help attract increased investment. We have made considerable progress with respect to a tax treaty. A new investment law has been passed which will facilitate private capital formation. Under this law there are no restrictions on the repatriation of profits. Similarly there are no requirements as to equity ownership, except in the case of a joint venture in banking where 51 percent Egyptian ownership is required.

We have also had a special team in Egypt reviewing Egypt's project development capability. A critical element to attracting investment is the development of feasibility studies to demonstrate the potential for return on the investment. The Egyptians are particularly interested in this, and we should have a cooperative program underway shortly to assist them.

There is no question about the Egyptian Government's desire for U.S. participation in the Egyptian economy. They recently presented me with a list of projects amounting to $2.3 billion for which they are seeking U.S. private sector involvement. And they are making needed changes in their system. For instance, they have granted authorization to allow U.S. banks to establish offices in Egypt and I am pleased to note that the Federal Reserve Board recently approved the applications of two U.S. banks to establish operations in Egypt. This is an extremely important development because of the vital role which international banks can play in the development of the Egyptian economy, particularly in facilitating the inflow of foreign investments and arranging the financing of major development projects.

Finally, and one of the most intriguing dimensions of our efforts with the Egyptians, is a concept which we have termed "triangular investment." It is an effort to join Egyptian projects, U.S. technology and other Arab capital. I discussed this at length on my recent trip to Kuwait, and the idea was favorably received. The Kuwaitis expressed a genuine desire to invest in Egypt and welcomed participation by the United States. Arab countries such as Kuwait want to be sure that the United States private sector is committed to investment in Egypt for the long term and welcome specific proposals. I mentioned several possibilities, including investment in the pulp and paper area as well as the sheet glass sector. Such projects would call for capital investment of about $250 million. We will be exploring in weeks ahead specific projects that could be conducive to triangular investment and will be discussing the triangular investment concept with other countries. I believe this form of investment can make a unique contribution not only to our efforts to build closer economic relations in the Middle East, but also to our desire to facilitate the orderly flow of funds from the oil-producing countries to the rest of the world. Seen in this way, our bilateral efforts with individual Arab countries can eventually be joined in economic cooperation throughout the Arab world.

Saudi Arabia. In this regard, I would like to turn briefly to our efforts with Saudi Arabia, a country which poses a very different challenge from Egypt.

First, the Saudis must determine how to accomplish their very ambitious plans to industrialize and diversify their economic structure; Second, they must decide how to efficiently and responsibly utilize surplus monetary reserves which have resulted from the increasing oil revenues.

The accrual of wealth taking place in the producing countries today is unprecedented in the history of the world economy. This year alone the OPEC countries will receive nearly $90 billion from their petroleum operations. This $90 billion is five times more than they accrued in 1972. Their actual income for 1974, if production rates and prices are maintained at current levels, will amount to $100 billion. When you take into consideration that OPEC members will receive approximately an additional $5 billion for the exports of services and commodities, their total receipts this calendar year will reach $95 billion. We estimate that after spending $35 billion for imported goods and services, $60 billion will be available for investment in world markets and for foreign assistance programs.

And the Saudis, by virtue of their current reserves -- to say nothing of their potential -- will play a critical role in determining the shape of the international economic system in the years ahead. This year alone the Saudis' revenues may reach $25 billion -- three or four times more than last year. The limits of the Saudi economy's ability to absorb imports are such that it is unlikely that 1974 foreign exchange expenditures will exceed 20 percent of earnings. Moreover, with the potential for an increase in production from their current 8.9 million barrels a day to as high as 20 million barrels a day by 1980, the Saudis -- even with an eventual decrease in world oil prices -- will continue to play a critical role with respect to our international financial system.

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In our effort to assist the Saudis in satisfying their desires to diversify their economy and prudently invest their revenues, we have established a Joint Commission on Economic Cooperation. It serves as the vehicle for providing the Saudis with the kinds of technical and managerial assistance they need to develop their economy at a rate which will satisfy Saudi desires. Throughout our meetings with Saudi leaders, they have been most explicit about their desire to develop a self-sustaining economy, less dependent on the hydrocarbon sector. This desire reflects itself in their investment attitude. They want to maintain the most flexible approach in order to have funds available when needed for industrialization.

The thrust of our Joint Commission effort has been to establish working groups covering industrialization, agriculture, science and technology, and manpower and education. Each of these working groups has met once to define areas of potential cooperation, and a number of U.S. technical experts in fields such as customs, port management, the environment, and manpower and education have visited Saudi Arabia. Further, the Saudi industrialization group visited the United States and met with a broad cross section of U.S. private business leaders to identify development goals and priority areas where U.S. technology could be joined with Saudi financial resources in Saudi Arabia. They presented us with a list of projects in both the hydrocarbon and non-hydrocarbon area. Their goal is to invest approximately 17 billion dollars in the hydrocarbon area over the next fifteen years and approximately 1 billion dollars in the non-hydrocarbon area during the next five years. Specifically, there is great interest in developing fertilizer and petrochemical plants to take full advantage of crude and natural gas resources. They are also interested in developing an iron and steel industry based upon domestic mineral resources, and in constructing an aluminum plant which would utilize imported alumina.

These projects are only illustrative. The Saudi desires for industrialization are all-inclusive. However a major difficulty will be in implementing these plans. Sufficient implementation capability to carry out the development plans does not yet exist in Saudi Arabia. Believing that this is their number one problem, we have presented to the Saudis a proposal to bring such a capability to the country. It involves establishing an organization in Saudi Arabia, controlled by the Saudis but initially staffed by experienced foreigners, with the explicit purpose of carrying out the developmental decisions made by the Saudi Government. The scope of activity of such an organization could vary from being responsible for the infrastructure of the country to the entire industrialization development effort. The point, however, is that the capability is needed. Of course, if we had the luxury of time, we could wait for Saudi manpower to establish such an entity. However, the Saudis do not feel they have the luxury of time -- they want to develop now; and that is why I believe they must have the institutional capacity to implement their decisions as soon as possible.

The need for such an organization as well as the scarcity of human resources that exists in Saudi Arabia clearly demonstrates how different this country's problems are from those in Egypt. At the same time, these differing, and yet complimentary, characteristics are illustrative of the potential for full economic cooperation -- and we in the United States want to assist in that union, as well as extend it beyond the Arab world.

U.S. POLICY TOWARD INVESTMENT

One important part of that extension involves our policy toward Arab investment in the U.S., an area of particular concern to me. I discussed this subject recently in Kuwait, where I was most impressed by the financial expertise and understanding of investment which the leaders displayed. They expressed a genuine desire to invest in the U.S., but they did feel that we had to clarify our policy with respect to investment. They were willing to adhere to the rules, but indicated that they were uncertain as to what those rules were. Uncertainty is the real enemy of investment, and we must avoid misunderstandings and misapprehensions on the part of both the American people and our Arab friends. Basically, our policy is to welcome foreign investment, with no special inducements and yet no special barriers, except in a few well-defined areas for reasons of national security or to protect an essential national interest.

We are continually reviewing our policies in this area to make sure they are consistent with changing circumstances. But I can envisage no developments that would justify changing the basic belief underlying the policy that investment capital should be free to move to its most productive use in response to free market forces. Maximum reliance on free market forces to direct worldwide investment flows will benefit the United States and all nations.

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Admittedly, the potential for investments from the Arab countries in the U.S. is far greater than the foreign investments we have experienced in recent years, but it is important to place the magnitude of this in the proper perspective. In the first ten months of this year about $10-1/2 billion of OPEC funds have flowed into the United States. Yet it appears that less than $1 billion of this went into private securities, real estate and direct investments. The bulk went into government securities, banks, and money markets, and a good portion of these funds were lent to other countries. It is likely that more substantial direct investments will be made in the future, but I believe that the cries of fear of a wholesale purchase of U.S. industry by Arabs are not justified.

I regard the potential for Arab investment in the United States not as a threat but, to the contrary, an important opportunity. The capital requirements for expanding and modernizing our productive capacity, developing our domestic energy industry, fulfilling our other raw material needs, and developing our transportation and other infrastructure needs are enormous. Certainly capital from Arab countries can be put to productive use in our country and it would be the height of folly to raise artificial barriers preventing our companies, our financial intermediaries, and our state, municipal, and Federal governments from having access to this new source of capital funds.

I would like to add that in my discussions with the managers of Arab funds, I found no interest by these countries in taking control over key industries in the West. They don't believe this is feasible or desirable. However, what they do want is a relation of real partnership and not the role of passive money lender. This is an important distinction to them, and we should recognize it as well. Such partnerships potentially could yield major benefits to the U.S. and other Western nations, not only because they will help satisfy our capital needs, but also because they will build strong ties of interdependence and friendship between the Western and Arab nations. With such ties will come a greater understanding of the necessity for international cooperation to build and maintain a strong and stable world economy.

This then is the underlying principle upon which our policies towards the Middle East are built. The only feasible course for the nations of the world to achieve our common and highly interdependent goals of peace, economic stability and growth is for us to work together in a spirit of cooperation. Our work in the economic area has convinced me of the unlimited potential in the Middle East. Unfortunately current political difficulties seem to cloud this potential. However, I see a time when peace will come to this part of the world and when the full economic potential will be realized -- a potential which calls for cooperation between us and among all of the countries in the Middle East. Some older and wiser men may disagree and tell me to stop dreaming. However, I'm still too young not to dream, and I believe that my generation and future generations cannot afford to be without peace and economic harmony in this part of the world. We must commit ourselves to that end and accept nothing less.

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COUNCIL ON WAGE AND PRICE STABILITY

Delivered at Hearings on Sugar Prices

Washington, D.C.

1974 SUGAR PRICE INCREASES

Introduction

This report will attempt to outline briefly the position of the United States in world sugar trade and to discuss the present market situation as well as the outlook for the future. The structure of the U.S. sugar industry will be discussed, and a preliminary analysis of various sugar margins and price spreads will be presented.

World Trade

Sucrose, commonly referred to as sugar, is produced in most of the countries of the world. This broad geographical distribution of production is due, in part, to the fact that sugar is commercially extracted from two significantly different plant sources -- sugarcane, a tropical perennial grass, and sugarbeets, a temperate-zone annual root crop. The United States is one of several countries which produce both sugarcane and sugarbeets.

Although the United States ranks fourth (behind the USSR, Brazil, and Cuba) among the sugar-producing nations of the world, we are nevertheless the world's largest sugar importer. Normally, domestic production accounts for roughly 55 percent of the sugar market in the United States, and the remaining 45 percent is supplied from abroad. However, this year it appears that we will be dependent upon foreign production for approximately 51 percent of our needs. This is the first time since 1960 and only the third year since 1948 that we will import more than half of the sugar sold in this country. (Table 1)

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Of the tremdous amount of sugar produced throughout the world, only a relatively small amount is normally traded in the so-called "world free market." (Figure 1) During the 1973-74 crop year (May 1 - April 30), for example, roughly 80 million metric tons of sugar were produced throughout the world, but roughly 72 percent (58 million tons) of this sugar was consumed within the nations in which it was produced. Of the 28 percent (22 million tons) which entered world trade, almost half (roughly 10 million tons) was exchanged under preferential arrangements such as (a) U.S. imports under the U.S. Sugar Act (5.4 million tons), (b) United Kingdom imports under the Commonwealth Sugar Agreement (roughly 1.5 million tons), and (c) Cuban exports to the USSR and other communist countries (roughly 3 million tons). This left only 12 million tons (approximately 15 percent of world production) to be traded in the so-called "world free market."

Today's Sugar Prices

Certainly no one here today needs to be told that sugar prices have risen at unprecedented rates during the past year! The astounding level of recent world sugar prices in comparison to historic levels is indicated in Figure 2.

Between November 5, 1973 and November 6, 1974, (the date on which this hearing was called) the price of raw sugar on the world market rose from 9.95 cents per pound to 51.00 cents per pound, an increase of 413 percent; the U.S. price of raw sugar (New York) rose from 11.20 cents per pound to 52.00 cents per pound, an increase of 364 percent; the wholesale price of refined sugar in 100 pound bags (f.o.b. Northeast refinery) rose from 15.15 cents per pound to 53.25 cents per pound, a gain of 252 percent; and the wholesale price of refined sugar in 5-pound bags rose from 16.57 cents per pound to 57.00 cents per pound, an increase of 244 percent.

Of course, depending on the comparison dates chosen, even more spectacular rates of increase can be cited, but rather than simply discussing the symptoms, let us examine the causes of these price increases.

Why Are Sugar Prices High?

The basic economic reason that sugar prices are high is that since crop year 1970-71 the world has consumed more sugar than it has produced and, hence, has seriously depleted its stocks. Because we in the United States import about one-half of the sugar we consume, we are directly affected by this worldwide problem.

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World demand for sugar is increasing at an astonishing rate. The primary causes of this increase are (1) the unrelenting expansion in world population and (2) a gradual rise in the per capita sugar consumption of the developing nations as they improve their living standards. In the United States, as in many of the other highly industrialized, temperate zone nations, per capita sugar consumption is approximately 100 pounds per year. In contrast, the annual per capita consumption in all of Africa is only 27 pounds, and the per capita consumption in Mainland China is reportedly less than 10 pounds. The Food and Agriculture Organization of the United Nations (FOA) has predicted that in 1980, only 6 years from now, world demand will be 93.2 million metric tons, roughly 13 million tons more than in 1974.

Even though world production has increased every year since 1970-71 and set successive all-time records in 1972-73 and 1973-74, it has not been able to catch up to consumption. As indicated in Table 2, average world sugar production since 1970-71 has been roughly 75.6 million metric tons per year and consumption has been roughly 77.0 million tons per year. Thus, during this five-year period, there has been an average annual reduction in world sugar stocks of approximately 1.4 million tons per year.

World stocks at the beginning of the current crop year (1974-75) were estimated to be only 19.7 percent of expected consumption. In contrast, beginning stocks averaged 32.8 percent of consumption during 1965-1970, a five year period of extremely low world prices. Stocks equal to roughly 25 percent of consumption are generally considered "normal" or "equilibrium" for the industry.

As indicated in Figure 2, world sugar prices have been increasing rather steadily since the end of 1968. In observing this, we may ask: "Why hasn't world production responded to this stimulus and corrected the supply-demand imbalance?" The answers are complex and interrelated, but may be summarized as follows:

1. Many sugar producers fear repetition of the "high price-over expansion-low price" cycle which has characterized the world sugar market in the past. For example, the abnormally high prices which occured in 1963-64 caused considerable over expansion and, as a result, world sugar prices were severely depressed during 1965-68. As world prices gradually increased between 1968 and 1974, many sugar producers were reluctant to invest in significant expansion efforts.

2. The time lags inherent in producing agricultural commodities have not -- and will not -- permit rapid reaction to the extreme price increases which we have experienced this year. Using existing processing facilities, it takes at least one or two years to expand production. If additional processing facilities must be built, the minimum lag between planning and consumption is six to eight years.

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3. Weather conditions in many of the sugar producing areas of the world have not been favorable during the past few years. The present (1974-75) crop, for example, will be considerably smaller than planned due to adverse weather conditions.

4. Artificial trade barriers such as subsidies, taxes, and monopolies imposed by the governments of both importing and exporting nations interfere with the price generated by the market. On the demand side, price subsidies create artifically low consumer prices and, hence, prevent shortages from being reflected in higher, demand-restricting prices. Retail sugar prices in selected countries as of November 1 are listed in Table 3 to illustrate the wide range of prices created by these government policies.

Artificially low prices not only fail to communicate the need to reduce consumption but, on the supply side, they also fail to stimulate production. A recent Associated Press article (unverified by the Council staff) alleges that the Brazilian Sugar and Alcohol Institute, the monopoly which sells Brazilian sugar to foreign buyers, is charging $1,400 a ton for raw sugar on the world market but is paying Brazilian farmers only $110 or $120 per ton, a price which reportedly offers no incentive to increase production.

While the five-year supply-demand imbalance and the market barriers discussed above are the basic or underlying causes of our high sugar prices, there are a number of additional factors which have contributed to the problem. Taken separately each of these factors would probably have only a relatively small effect on the world sugar market. However, since they have all occurred during the past two years and follow in the wake of the supply-demand imbalance discussed above, they have contributed significantly to the recent dramatic increase in sugar prices. These factors include:

1. Increased costs of producing, processing, and transporting sugar due to the energy crisis and worldwide inflation.

2. Currency devaluation, which has increased the U.S. price for imported sugar.

3. Uncertainties concerning U.S. sugar policy -- first over proposed changes in the Sugar Act and then, after renewal of the Act was defeated, over our future policy.

4. Factual reports and/or rumors concerning a wide variety of subjects including (a) the formation of a cartel by certain sugar exporting nations; (b) hoarding by industrial users and/or individual consumers of sugar; (c) the amount and effects of speculation in sugar futures; and (d) the aggressive sugar purchasing policies of certain Middle Eastern oil producing nations.

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It is hoped that some of the witnesses who testify at this hearing today and tomorrow will comment on these factors -- particularly if they can shed new light on the rumors and reports which have recently had important psychological effects on the sugar markets around the world.

Outlook

The short run outlook for sugar prices is not encouraging. The supply-demand situation will probably remain very tight for the next year or two at least. Due to the many complex international economic and political forces involved, it is difficult to assess when or at what level sugar prices will peak.

The current sugar crop (1974-75) will be considerably smaller than originally expected, particularly the Northern Hemisphere beet crops. Western Europe got off to a bad start with adverse planting weather, suffered serious disease and insect problems during the growing season, and has experienced adverse harvesting weather. The United Kingdom's crop has been hit by disease and is expected to yield no more than 600,000 tons from the same acreage that would normally produce over a million tons. Cuba's cane crop has reportedly been reduced due to drought, and estimates of Brazil's and India's cane crops have been revised downward. Two weeks ago both Poland and the Philippines suspended export sales due to weather damage to their crops. The Soviet Union, the world's largest sugar producer, has apparently had another poor sugarbeet crop and, for the third consecutive year, is purchasing substantial quantities of sugar on the world market to supplement its supplies. In the United States, the sugarbeet and sugarcane harvests are underway, but this year's cane crop is expected to be down 2 percent from last year and the beet crop is expected to be down 9 percent. During the past two years, U.S. farmers have apparently been dissatisfied with their returns from beets, and therefore, have diverted acreage to other crops.

On the encouraging side, the high prices which we have been experiencing have apparently begun to cause some decrease in the per capita sugar consumption of a number of countries, including the United States. Estimates of how much consumption might be reduced vary considerably, but one industry spokesman has predicted a 10 percent reduction in 1975 U.S. consumption (indicating that sugar deliveries could be as low as 11.4 million short tons). Furthermore, these high prices are expected to encourage significant increases in production next year.

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Sugar Consumption

On the average, we in the United States consume slightly over 100 pounds of sugar per person per year. However, less than one-quarter of this sugar is purchased in consumer-size packages (packages of less than 50 pounds). Most of the remainder is consumed in the form of processed foods, such as soft drinks and baked goods.

In 1973, food processors purchased over two-thirds of all the sugar sold in the United States. The major industrial user of sugar was the beverage industry -- it purchased 23 percent of all the sugar sold in this country last year. The other major industrial users were the bakery and cereal industry (13.5 percent); the confectionary industry (9.6 percent); the canning, preserving, and frozen food industry (9.5 percent); and the ice cream and dairy industry (5.5 percent). Of the sugar marketed through so-called "non-industrial" buyers, 31 percent went to wholesale and retail grocers, chain stores, jobbers, etc., and 1 percent went to hotels and restaurants.

Industry Structure

The U.S. sugar industry has three major components or subsectors: (1) domestic sugarcane growing and processing, (2) cane sugar refining, and (3) domestic sugarbeet growing and processing.

Sugarcane -- The domestic sugarcane growing and processing subsector consists of over 4,800 sugarcane farms and 80 sugarcane mills located in Louisiana, Florida, Texas, Puerto Rico, and Hawaii. This subsector produced approximately 24 percent of our total 1973 sugar requirements.

Sugarcane growers sell their cane to processing mills which produce raw sugar and, in turn, sell this intermediate product to refineries for further processing. Through a wide variety of contractual agreements with mills and/or through ownership of the mills themselves, the price which growers receive for their sugarcane is based upon the market price of raw sugar and molasses during specified periods subsequent to the harvesting and processing of the cane. Due to these pricing arrangements, all of our domestic sugarcane growers have, to varying degrees, benefited along with the cane processors from the recent rapid increase in raw sugar prices.

Cane sugar refining -- This subsector consists of roughly 26 refineries operated by 19 firms (excluding subsidiaries and including the Puerto Rican Government as a single unit). Cane sugar refineries purchase raw sugar from foreign suppliers and/or domestic sugarcane mills, process it into refined sugar, and sell this refined sugar to industrial users and wholesale distributors. In 1973, this subsector processed and marketed approximately 70 percent of our total sugar requirements -- the entire 24 percent produced by the domestic sugarcane subsector (discussed above) plus the entire 46 percent of our requirements imported from abroad.

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Sugarbeets -- The domestic sugarbeet growing and processing subsector consists of roughly 12,700 sugarbeet farms and 53 sugarbeet processing plants located in 17 states, primarily in the West. Unlike the cane sugar production process, there is no intermediate product (raw sugar) stage in the beet sugar production process. Sugarbeet processing plants produce refined sugar directly from beets and sell this refined sugar in competition with cane sugar refiners. In 1973, the domestic sugarbeet subsector produced, processed, and marketed approximately 30 percent of our total sugar requirements.

Sugarbeet growers sell their beets to beet processors under participatory contracts which entitle them to roughly two-thirds of the net returns from the sale of the refined sugar and molasses produced from their beets. Due to these pricing arrangements, all of our domestic sugarbeet growers have -- as in the case of our sugarcane growers -- benefited greatly along with the processors from the recent rapid increase in sugar prices.

Price Spreads and Margins

Due to the very important differences in organizational structure, production processes, costs, and pricing arrangements which exist between (and, in some cases, within) the major subsectors of the sugar industry, the price spreads and margins of those subsectors must be analysed separately.

Cane sugar refining -- Table 4 indicates monthly average wholesale prices for raw and refined cane sugar (New York basis) for the period 1972 to date. The concurrent "spread" or difference between these prices is also indicated. This spread is often cited as an indicator of the gross margin for cane sugar refining but, due to the time required for the refining process (including storage, marketing, etc.), it is not always a good measure. In order to estimate margins which take this time differential into account, spreads lagged by one month and two months have been computed. As indicated in Table 4, these lagged spreads were roughly equal to the concurrent spread during 1972 and 1973 due to the relatively stable prices during these years, but they have been significantly larger during the period of rapidly rising prices which began in early 1974. These lagged spreads clearly illustrate the windfall gains or "inventory profits" which accrue to producers of not only sugar, but all goods, during periods of rapidly rising prices. The analysis which follows indicates that, during 1974, all sectors of the U.S. sugar industry have, in varying degrees, reaped very large windfall gains of the type illustrated here for the cane sugar refining sector.

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Continuing the analysis of refining spreads and margins, Table 5 indicates the 1965-1973 annual average and 1974 monthly average prices and price spreads at various stages in the importing, refining, and marketing process for cane sugar. It begins with the f.o.b. Caribbean price of raw sugar and indicates (a) the amount which must be added to this price in order to adjust it to a c.i.f. New York basis, (b) the difference (premium or discount) between this adjusted world price (c.i.f. New York) and the U.S. price for raw sugar, (c) the U.S. price for the amount of raw sugar (roughly 107 pounds) required to produce 100 pounds of refined sugar (at this point the 1974 data incorporates a one-month lag, for the reasons indicated above), (d) the average quoted wholesale price for refined sugar in New York, and (e) the average retail price for refined sugar in New York, as well as the spreads between these prices. It is interesting to note that, in New York, the monthly average retail price was lower than the monthly average wholesale price during seven of the first nine months of this year. This indicates that New York retailers were selling sugar at prices below what it was costing them to replace it in their investories.

<u>Growing and processing domestic sugarbeets and sugarcane</u> -- As indicated in the preceding description of industry structure, the prices which growers receive for sugarcane and sugarbeets are contractually linked to the prices received by processors for raw cane sugar and refined beet sugar, respectively. Due to these pricing practices, the exact returns to growers for a given crop are not known until all of the sugar from that crop has been sold. This procedure makes the estimation of a current farm value for sugar extremely difficult, particularly during a period of rapidly rising prices. However, analysis by the Economic Research Service of the U.S. Department of Agriculture (based on estimated monthly prices received by beet and cane growers -- Table 6), indicates that between the third quarters of 1973 and 1974, (1) the national average retail price of sugar in 5-pound bags increased from 15.12 cents per pound to 35.00 cents per pound (an increase of 19.88 cents per pound, or 131 percent), (2) the farm value of this sugar increased from 6.30 cents per pound to 19.08 cents per pound (an increase of 12.78 cents per pound or 203 percent), and (3) the farm-retail spread for a 5-pound bag of sugar increased from 8.82 cents per pound to 15.92 cents per pound (an increase of 7.10 cents per pound or 80 percent). Thus, according to these estimates, the growers' share of the retail price of sugar jumped from roughly 42 percent to 55 percent during this one-year period.

In order to analyse the changes in net returns which have accrued to various segments of the domestic sugarbeet and sugarcane industry, data concerning the estimated costs and returns for producing and processing sugarcane and sugarbeets have been assembled for the years 1965-1974 for Louisiana, Florida, Hawaii, and the domestic sugarbeet area. (Tables 7, 8, 9, and 10, respectively.) These estimates indicate

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that the net returns per unit of sugar for both the production and processing segments of the domestic sugarcane and sugarbeet industries are much higher in 1974 than in any year in recent history.

In closing, it should be noted that the findings on price spreads and margins presented in this report are preliminary. The witnesses testifying at this hearing are encouraged to assist the Council staff in improving these estimates.

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Table 1

Shares in U.S. Sugar Marketings, 1948-74
(Percent)

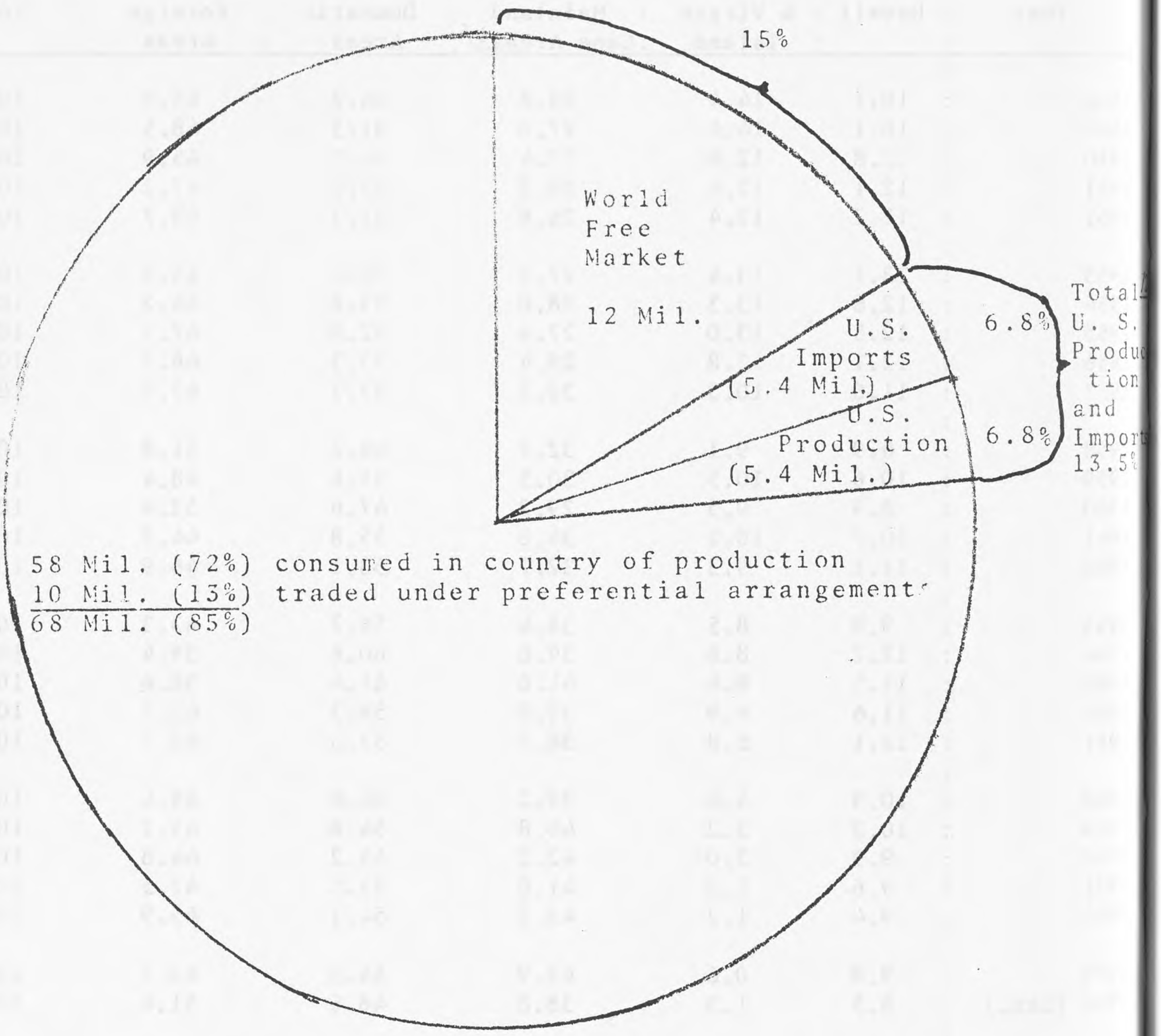
Year	Hawaii	Puerto Rico & Virgin Island	Beet and Mainland Cane Areas[1]	All Domestic Areas	All Foreign Areas	Total
1948	10.1	14.4	29.8	54.2	45.8	100.0
1949	10.1	14.4	27.0	51.5	48.5	100.0
1950	13.8	12.8	27.4	54.1	45.9	100.0
1951	12.1	12.4	28.2	52.8	47.2	100.0
1952	12.2	12.4	26.8	51.3	48.7	100.0
1953	13.1	13.4	27.3	54.1	45.9	100.0
1954	12.6	13.3	28.0	53.8	46.2	100.0
1955	12.5	13.0	27.4	52.9	47.1	100.0
1956	12.1	12.8	28.4	53.3	46.7	100.0
1957	11.6	10.3	30.3	52.3	47.7	100.0
1958	6.9	9.1	32.2	48.2	51.8	100.0
1959	10.6	10.5	30.5	51.6	48.4	100.0
1960	8.9	9.5	29.2	47.6	52.4	100.0
1961	10.7	10.2	34.8	55.8	44.2	100.0
1962	11.1	9.3	32.7	53.1	46.9	100.0
1963	9.8	8.5	38.4	56.7	43.3	100.0
1964	12.2	8.8	39.6	60.6	39.4	100.0
1965	11.5	8.4	41.6	61.4	38.6	100.0
1966	11.6	6.9	39.8	58.3	41.7	100.0
1967	12.1	6.8	38.5	57.3	42.7	100.0
1968	10.9	4.6	39.2	54.6	45.4	100.0
1969	10.8	3.2	40.8	54.8	45.2	100.0
1970	9.9	3.0	42.2	55.2	44.8	100.0
1971	9.6	1.3	41.6	52.5	47.5	100.0
1972	9.4	1.2	43.5	54.1	45.9	100.0
1973	9.8	0.6	43.9	54.3	45.7	100.0
1974 (Est.)	8.5	1.3	38.8	48.6	51.4	100.0

[1] Includes Texas Cane Area beginning in 1973.

11/18/74

FIGURE 1

U. S. SUGAR PRODUCTION AND IMPORTS IN RELATION TO WORLD TRADE /1



1/ Stated in million metric tons, raw value, and based on world production and consumption of 80 million tons.

2/ July 1973 - June 1974

Figure 2

WORLD RAW SUGAR PRICES, BY MONTHS, 1955-1974

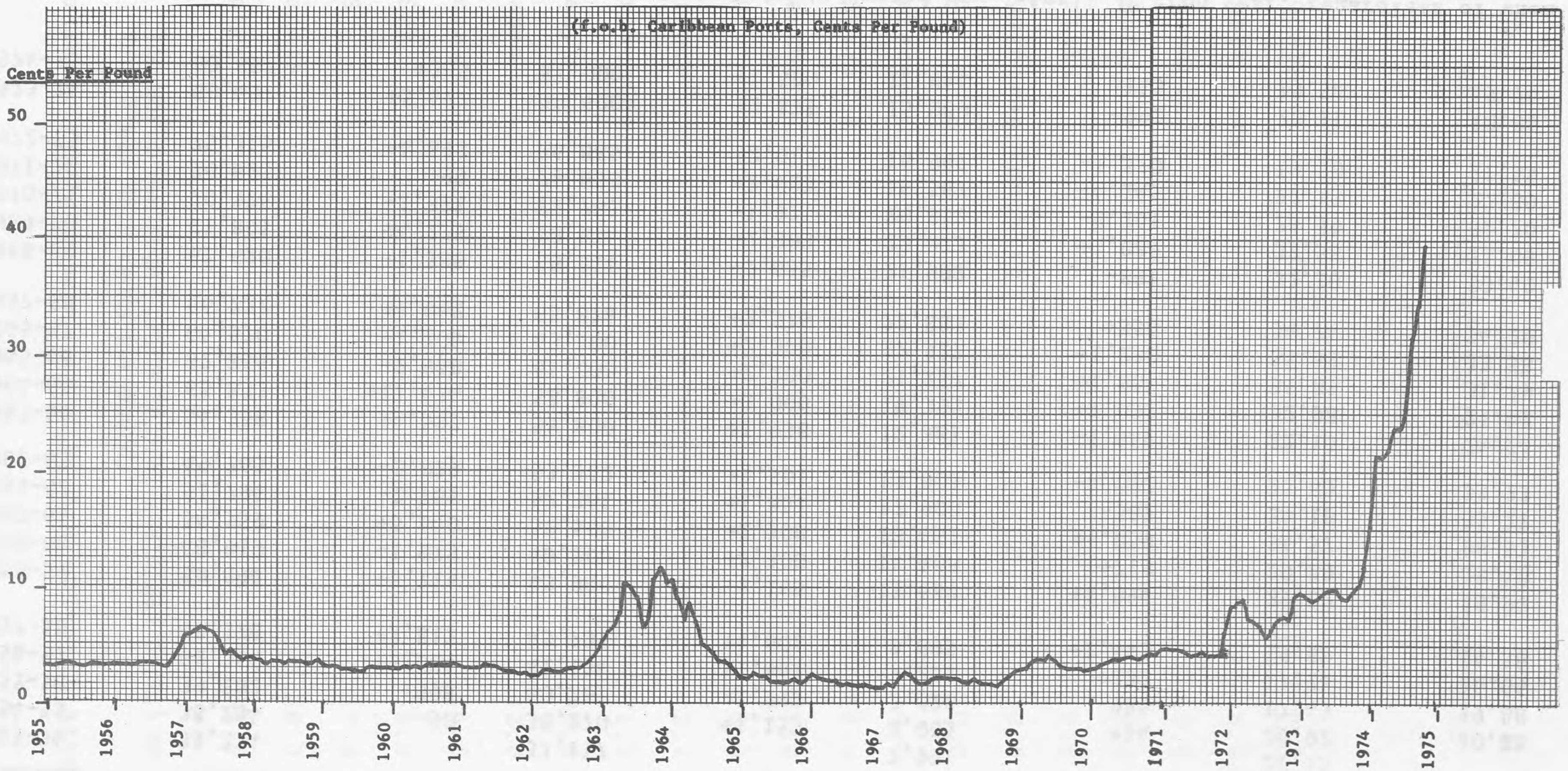

(f.o.b. Caribbean Ports, Cents Per Pound)

Table 2

SUGAR: World Production, Consumption, and Stocks
(Thousand Metric Tons, Raw Value)

Year Beginning May 1 1/	Production		Consumption		Ending Stocks		Ending Stocks as a % of Consumption	Beginning Stocks as a % of Consumption
	Total	Change from Previous Yr.	Total	Change From Previous Yr.	Total	Change from Previous Yr.		
1953-54	38,374		37,117		7,991		21.15	
1954-55	38,284	-90	38,270	+1,153	8,005	+14	20.92	20.88
1955-56	39,282	+998	40,267	+1,997	7,020	-985	17.43	19.88
1956-57	42,366	+3,084	42,134	+1,867	7,252	+232	17.21	16.66
1957-58	45,178	+2,812	43,735	+1,601	8,695	+1,443	19.88	16.58
1958-59	50,894	+5,716	45,900	+2,165	13,689	+4,994	29.82	18.94
1959-60	48,919	-1,975	48,200	+2,300	14,408	+719	29,89	28.40
1960-61	54,559	+5,640	50,500	+2,300	18,467	+4,059	36.57	28.53
1961-62	51,794	-2,765	52,361	+1,861	17,900	-567	34.18	35.27
1962-63	49,765	-2,029	53,862	+1,501	13,803	-4,097	25.63	33.23
1963-64	54,358	+4,593	55,800	+1,938	12,361	-1,442	22.15	24.74
1964-65	65,832	+11,474	58,800	+3,000	19,393	+7,032	32.98	21.02
1965-66	62,864	-2,968	61,000	+2,200	21,257	+1,864	34.85	31.79
1966-67	64,570	+1,706	63,300	+2,300	22,527	+1,270	35.59	33.58
1967-68	66,232	+1,662	65,876	+2,576	22,883	+356	34.74	34.20
1968-69	67,620	+1,388	68,511	+2,635	21,992	-891	32.10	33.40
1969-70	71,895	+4,275	70,814	+2,303	23,073	+1,081	32.58	31.06
1970-71	70,524	-1,371	72,785	+1,971	20,812	-2,261	28.59	31.70
1971-72	70,623	+99	74,868	+2,083	16,567	-4,245	22.13	27.80
1972-73	75,315	+4,692	76,885	+2,017	14,997	-1,570	19.50	21.55
1973-74	80,492	+5,177	79,500	+2,615	15,989	+992	20.11	18.86
1974-75 2/	80,857	+365	81,000	+1,500	15,846	-143	19.56	19.74

1/ Entire crop included for all harvests <u>begun</u> during the indicated May 1-April 30 crop year, regardless of when harvest is completed.

2/ November 18, 1974 forecast.

SOURCE: U.S. Department of Agriculture, Foreign Agricultural Service.

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TABLE 3

RETAIL SUGAR PRICES IN SELECTED COUNTRIES

As of November 1, 1974 1/

COUNTRY	CENTS PER POUND	
Costa Rica	7 - 8.0	
Colombia	7.5	
South Africa	9.1	
Brazil	9.8	
Dominican Republic	10.0	
Manila	10.0	
Lebanon	14.0	
Australia	15.0	
Panama	15.0	
UK	16.0	(22.4 on 11/4)
France	20.3 - 22.4	
Argentina	21.5	
Kenya	29.0	
Japan	42.0	
Korea	46.8	
USSR	56.0	
US	57.0	
Canada	58.0	(65.2 on 11/6)
Zaire	84.0	

1/ The world raw sugar price (f.o.b. Caribbean ports) on Nov. 1 was 49.0 cents per pound.

Source: Cable Reports by U.S. Agricultural Attaches

Table 4

Cane Sugar: Raw-Refined Price Spreads
(Dollars Per Cwt., New York Basis)

Period	Raw	Refined	Concurrent Spread	One Month Lagged Spread	Two Months Lagged Spread
1972					
January	9.10	12.81	3.71	3.97	4.18
February	9.02	13.00	3.98	3.90	4.16
March	9.16	13.00	3.84	3.98	3.90
April	8.89	13.20	4.31	4.04	4.14
May	8.76	13.20	4.44	4.31	4.04
June	8.77	13.20	4.43	4.44	4.31
July	9.17	13.20	4.03	4.43	4.44
August	9.33	13.20	3.87	4.03	4.43
September	9.39	13.20	3.81	3.87	4.03
October	9.32	13.13	3.81	3.74	3.80
November	9.03	12.95	3.92	3.63	3.56
December	9.19	12.95	3.76	3.92	3.63
1973					
January	9.38	13.15	3.77	3.96	4.12
February	9.14	13.18	4.04	3.80	3.99
March	9.45	12.94	3.49	3.80	3.56
April	9.65	13.30	3.65	3.85	4.16
May	10.06	13.55	3.49	3.90	4.10
June	10.25	13.96	3.71	3.90	4.31
July	10.25	14.05	3.80	3.80	3.99
August	10.75	14.50	3.75	4.25	4.25
September	10.97	14.80	3.83	4.05	4.55
October	11.15	14.95	3.80	3.9[illegible]	4.20
November	11.10	15.13	4.03	3.98	4.16
December	11.34	15.33	3.99	4.23	4.18
1974					
January	12.63	15.65	3.02	4.31	4.55
February	17.09	18.49	1.40	5.86	7.15
March	18.11	20.90	2.79	3.81	8.27
April	19.25	23.78	4.53	5.67	6.69
May	23.05	27.61	4.56	8.36	9.50
June	26.30	31.04	4.74	7.99	11.79
July	28.35	32.50	4.15	6.20	9.45
August	32.60	36.83	4.23	8.48	10.53
September	33.71	40.74	7.03	8.14	12.39
October	38.83	43.59	4.76	9.88	10.99
November					
December					
January-December					
1970	8.07	11.97	3.90		
1971	8.52	12.48	3.96		
1972	9.09	13.09	4.00		
1973	10.29	14.07	3.78		
January-October					
1972	9.09	13.11	4.02		
1973	10.11	13.84	3.73		
1974	24.99	29.11	4.12		

11/13/7

Table 5

Cane Sugar Refining: Prices and Price Spreads

Year	RAW CANE SUGAR				REFINED CANE SUGAR				
	World Price 1/	Customs Duty Insurance and Freight	Quota Premium or Discount	Domestic Price N.Y. 2/	Dom. Price N.Y. Dollar Per 107 lbs. 96° sugar 3/	Raw Refined Price Spread	Wholesale Price New York 4/	Wholesale Retail Price Spread	Retail Price New York
	dollars per cwt				dollars per cwt				
1965	2.12	0.95	3.68	6.75	7.22	3.00	10.22	1.68	11.90
1966	1.86	0.96	4.17	6.99	7.48	2.88	10.36	2.04	12.40
1967	1.99	0.96	4.33	7.28	7.79	2.83	10.62	1.78	12.40
1968	1.98	0.98	4.56	7.52	8.05	2.79	10.84	1.66	12.50
1969	3.37	1.00	3.38	7.75	8.29	3.15	11.44	0.92	12.36
1970	3.75	1.13	3.19	8.07	8.63	3.34	11.97	1.51	13.48
1971	4.53	1.12	2.87	8.52	9.12	3.36	12.48	1.42	13.90
1972	7.43	1.10	.56	9.09	9.73	3.36	13.09	0.99	14.08
1973	9.61	1.38	-.70	10.29	11.01	3.06	14.07	1.43	15.50
1974									
Jan.	15.32	1.55	-4.24	12.63	12.13	3.52	15.65	1.75	17.40
Feb.	21.28	1.55	-5.74	17.09	13.51	4.98	18.49	-0.57	17.92
March	21.27	1.59	-4.75	18.11	18.29	2.61	20.90	-0.42	20.48
April	21.77	1.63	-4.15	19.25	19.38	4.40	23.78	-0.60	23.18
May	23.65	1.75	-2.35	23.05	20.60	7.01	27.61	-2.55	25.06
June	23.67	1.73	0.90	26.30	24.66	6.38	31.04	-2.52	28.52
July	25.40	1.66	1.29	28.35	28.14	4.36	32.50	0.34	32.84
Aug.	31.45	1.63	-0.48	32.60	30.33	6.50	36.83	-1.77	35.06
Sept.	34.35	1.60	-2.24	33.71	34.88	5.86	40.74	-2.72	38.02
Oct.	39.63	1.66	-2.46	38.83	36.07	7.52	43.59		
Nov.					41.55				

1/ Spot price bulk sugar under contract No. 11, which beginning on January 1, 1971 replaced contract No. 8. The terms of these contracts are F.O.B. and stored at Greater Carribean ports including Brazil.

2/ Spot price bulk sugar under contract No. 10, duty paid or duty free.

3/ Approximate lbs. of 96° raw sugar required to produce 100 lbs. of refined sugar. Monthly data shown for 1974 reflect 107 times the Domestic price, N.Y. for the prior month.

4/ Refiners indicate that quoted wholesale prices were discounted substantially from 1965 through 1973. Such prices for 1974 were not discounted.

Table 6
Estimates of farm values and price spreads for sugar

Quarters	Retail price for 5 pounds	Based on season average price 1/		Based on estimated monthly prices 2/	
		Farm value	Farm-retail spread	Farm	Farm retail spread
	Cents				
1973					
July-September	75.6	31.5	44.1	31.5	44.1
October-December	82.1	38.1	44.0	33.8	48.3
1974					
January-March	92.6	44.8	47.8	45.9	46.7
April-June	126.9	44.8	82.1	70.4	56.5
July-September	175.0	44.8	130.2	95.4	79.6

1/ Regular computational procedures using season average prices received by farmers for sugar beets and sugar cane as estimated by Statistical Reporting Service.

2/ Computed from monthly estimates of prices received by beet and cane growers. [New computational procedure designed to yield more accurate estimates of farm value and the farm-retail spread during periods of rapidly rising prices.]

Source: USDA-ERS, Marketing and Transportation Situation, November 1974.

Table 7

Louisiana: Returns and Costs of Sugarcane Production
and Raw Sugar Processing, per cwt. 96° raw sugar,
for the 1965 through 1974 crop years.

Crop Year	Estimated Cost of Production	Sugarcane Production: Grower Returns: Processor Payments: Sugar	Molasses	Other 1/	Sugar Act Payments: Sugar	Aban. & Def.	Total Gross Returns	Total Net Returns
1965	$ 6.099	$ 4.379	$ .071	$ .355	$ .745	$ .012	$ 5.562	$ (.537)
1966	5.648	4.537	.216	.338	.714	.012	5.817	.169
1967	4.650	4.733	.177	.340	.709	-	5.959	1.309
1968	5.229	4.958	.090	.340	.727	-	6.115	.886
1969	5.865	4.999	.150	.272	.724	-	6.145	.280
1970	5.861	5.316	.140	.292	.731	.006	6.485	.624
1971	6.554	5.735	.148	.305	.733	.028	6.949	.395
1972	6.335	5.984	.327	.307	.703	.012	7.333	.998
1973	8.309	8.153	.658	.319	.713	.053	9.896	1.587
1974	11.185	25.984 3/	.663	.312	.705	.053	27.717	16.532

Crop Year	Raw Sugar Processing: Estimated Cost of Processing	Returns From: Sugar	Molasses	Other 2/	Total Gross Returns	Total Net Returns
1965	$ 7.253	$ 6.736	$ .310	.086	$ 7.132	$ (.121)
1966	7.502	7.102	.495	.099	7.696	.194
1967	7.243	7.317	.436	.080	7.833	.590
1968	7.805	7.611	.403	.080	8.094	.289
1969	8.011	7.837	.508	.068	8.413	.402
1970	8.334	8.147	.491	.062	8.700	.366
1971	9.185	8.695	.500	.025	9.220	.035
1972	9.748	9.191	.940	.025	10.156	.408
1973	13.325	12.541	1.537	.025	14.103	.778
1974	31.559	40.146	1.563	.025	41.734	10.175

1/ Hauling allowances.

2/ Sales of Bagasse.

3/ Based on season's average price of 40 cents.

Table 10

Sugarbeets: Returns and Costs of Sugarbeet production
and Beet Sugar Processing, per cwt. of 96° raw sugar,
for the 1965 through 1974 crop years.

Sugarbeet Production									Beet Sugar Processing							
		Grower Returns														
		Processor Payments			Sugar Act Payment						Returns From					
Crop Year	Estimated Cost of Production	Sugarbeets	Haul. All.	Sale and Use of Beet Tops	Sugar	Aban. & Def.	Total Gross Returns	Total Net Returns	Crop Year	Estimated Cost of Processing	Sugar	Molasses	Dried Pulp	Other 1/	Total Gross Returns	Total Net Returns
1965	$ 4.875	$ 4.455	$ .046	$ .168	$ .810	$ .041	$ 5.520	$ .645	1965	$ 9.276	$ 9.024	$ .296	$ .610	$ .116	$10.046	$ .770
1966	4.942	4.744	.041	.137	.796	.026	5.744	.802	1966	9.816	9.724	.213	.849	.097	10.883	1.067
1967	5.109	5.097	.047	.186	.807	.030	6.167	1.058	1967	10.371	9.945	.197	.828	.083	11.053	.682
1968	4.858	5.176	.061	.181	.812	.023	6.253	1.395	1968	10.280	10.060	.172	.793	.052	11.077	.797
1969	5.435	5.465	.068	.211	.854	.038	6.636	1.201	1969	10.921	10.436	.181	.795	.064	11.476	.555
1970	5.240	5.842	.063	.211	.814	.023	6.953	1.713	1970	11.780	11.229	.226	.977	.025	12.457	.677
1971	5.131	6.043	.063	.211	.802	.020	7.139	2.008	1971	12.118	11.552	.262	.998	.039	12.851	.733
1972	6.116	6.510	.056	.172	.801	.016	7.555	1.439	1972	12.943	12.060	.285	1.280	.038	13.663	.720
1973	6.751	12.499	.055	.180	.806	.020	13.560	6.809	1973	19.916	21.556	.479	1.729	.051	23.815	3.899
1974	9.294	25.196 2/	.055	.186	.803	.019	26.259	16.965	1974	33.634	40.816	.553	2.806	.083	44.258	10.624

1/ Wet pulp sales and returns from processing by-products.

2/ Based on a Net Selling Price of 40 cents.

APPENDIX

SUGAR: World Production, Consumption, and Stocks
(Thousand Metric Tons, Raw Value)

Year Beginning May 1[1]	Production		Consumption		Ending Stocks		Ending Stocks as a % of Consumption	Beginning Stocks as a % of Consumption
	Total	Change from Previous Yr.	Total	Change From Previous Yr.	Total	Change from Previous Yr.		
1953-54	38,374		37,117		7,991		21.15	
1954-55	38,284	-90	38,270	+1,153	8,005	+14	20.92	20.88
1955-56	39,282	+998	40,267	+1,997	7,020	-985	17.43	19.88
1956-57	42,366	+3,084	42,134	+1,867	7,252	+232	17.21	16.66
1957-58	45,178	+2,812	43,735	+1,601	8,695	+1,443	19.88	16.58
1958-59	50,894	+5,716	45,900	+2,165	13,689	+4,994	29.82	18.94
1959-60	48,919	-1,975	48,200	+2,300	14,408	+719	29,89	28.40
1960-61	54,559	+5,640	50,500	+2,300	18,467	+4,059	36.57	28.53
1961-62	51,794	-2,765	52,361	+1,861	17,900	-567	34.18	35.27
1962-63	49,765	-2,029	53,862	+1,501	13,803	-4,097	25.63	33.23
1963-64	54,358	+4,593	55,800	+1,938	12,361	-1,442	22.15	24.74
1964-65	65,832	+11,474	58,800	+3,000	19,393	+7,032	32.98	21.02
1965-66	62,864	-2,968	61,000	+2,200	21,257	+1,864	34.85	31.79
1966-67	64,570	+1,706	63,300	+2,300	22,527	+1,270	35.59	33.58
1967-68	66,232	+1,662	65,876	+2,576	22,883	+356	34.74	34.20
1968-69	67,620	+1,388	68,511	+2,635	21,992	-891	32.10	33.40
1969-70	71,895	+4,275	70,814	+2,303	23,073	+1,081	32.58	31.06
1970-71	70,524	-1,371	72,785	+1,971	20,812	-2,261	28.59	31.70
1971-72	70,623	+99	74,868	+2,083	16,567	-4,245	22.13	27.80
1972-73	75,315	+4,692	76,885	+2,017	14,997	-1,570	19.50	21.55
1973-74	80,492	+5,177	79,500	+2,615	15,989	+992	20.11	18.86
1974-75[2]	80,857	+365	81,000	+1,500	15,846	-143	19.56	19.74

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[1] Entire crop included for all harvests begun during the indicated May 1-April 30 crop year, regardless of when harvest is completed.

[2] November 18, 1974 forecast.

SOURCE: U.S. Department of Agriculture, Foreign Agricultural Service.

SUGAR: World Production, Consumption, and Stocks
(Thousand Metric Tons, Raw Value)

Year Beginning September 1	Production		Consumption		Ending Stocks		Ending Stocks as a % of Consumption	Beginning Stocks as a % of Consumption
	Total	Change from Previous Yr.	Total	Change from Previous Yr.	Total	Change from Previous Yr.		
1953-54	38,583		[illegible]		10,911		29.58	
1954-55	38,405	-178	35,254	-1,638	10,415	-496	29.54	30.95
1955-56	39,882	+1,477	40,443	+5,189	9,087	-1,328	22.47	25.75
1956-57	42,286	+2,404	42,228	+1,785	9,234	+147	21.87	21.52
1957-58	45,873	+3,587	44,704	+2,476	8,984	-250	20.10	20.66
1958-59	50,893	+5,020	47,561	+2,857	12,767	+3,783	26.84	18.89
1959-60	50,084	-809	48,858	+1,297	13,790	+1,023	28.22	26.13
1960-61	55,442	+5,358	52,733	+3,875	16,079	+2,289	30.49	26.15
1961-62	52,542	-2,900	55,602	+2,869	12,463	-3,616	22.41	28.92
1962-63	51,432	-1,110	54,479	-1,123	9,293	-3,170	17.06	22.88
1963-64	55,122	+3,690	54,261	-218	11,129	+1,836	20.51	17.13
1964-65	66,576	+11,454	60,007	+5,746	18,035	+6,906	30.05	30.05
1965-66	63,102	-3,474	63,037	+3,030	18,561	+526	29.44	28.61
1966-67	65,617	+2,515	65,457	+2,420	19,101	+540	29.18	28.36
1967-68	67,900	+2,283	66,565	+1,108	20,572	+1,471	30.90	28.70
1968-69	67,784	-116	68,224	+1,659	19,603	-969	28.73	30.15
1969-70	74,346	+6,562	72,223	+3,999	21,362	+1,759	29.58	27.14
1970-71	72,771	-1,575	74,518	+2,295	19,081	-2,281	25.60	28.67
1971-72	73,852	+1,081	76,118	+1,600	17,157	-1,924	22.54	25.07
1972-73	77,173	+3,321	78,115	+1,997	15,794	-1,363	20.22	21.96
1973-74	80,522	+3,349	80,629	+2,514	15,587	-207	19.33	19.59
1974-75[1]	80,300	-222	82,750[2]	+2,121	12,530	-3,057	15.14	18.83

[1] Forecast as of November 14, 1974.
[2] Mid-point between 82.5 and 83.0 million metric tons estimated for consumption.

SOURCE: F. O. Licht.

SUGAR: World Production, Consumption, and Stocks
(Thousand Metric Tons, Raw Value)

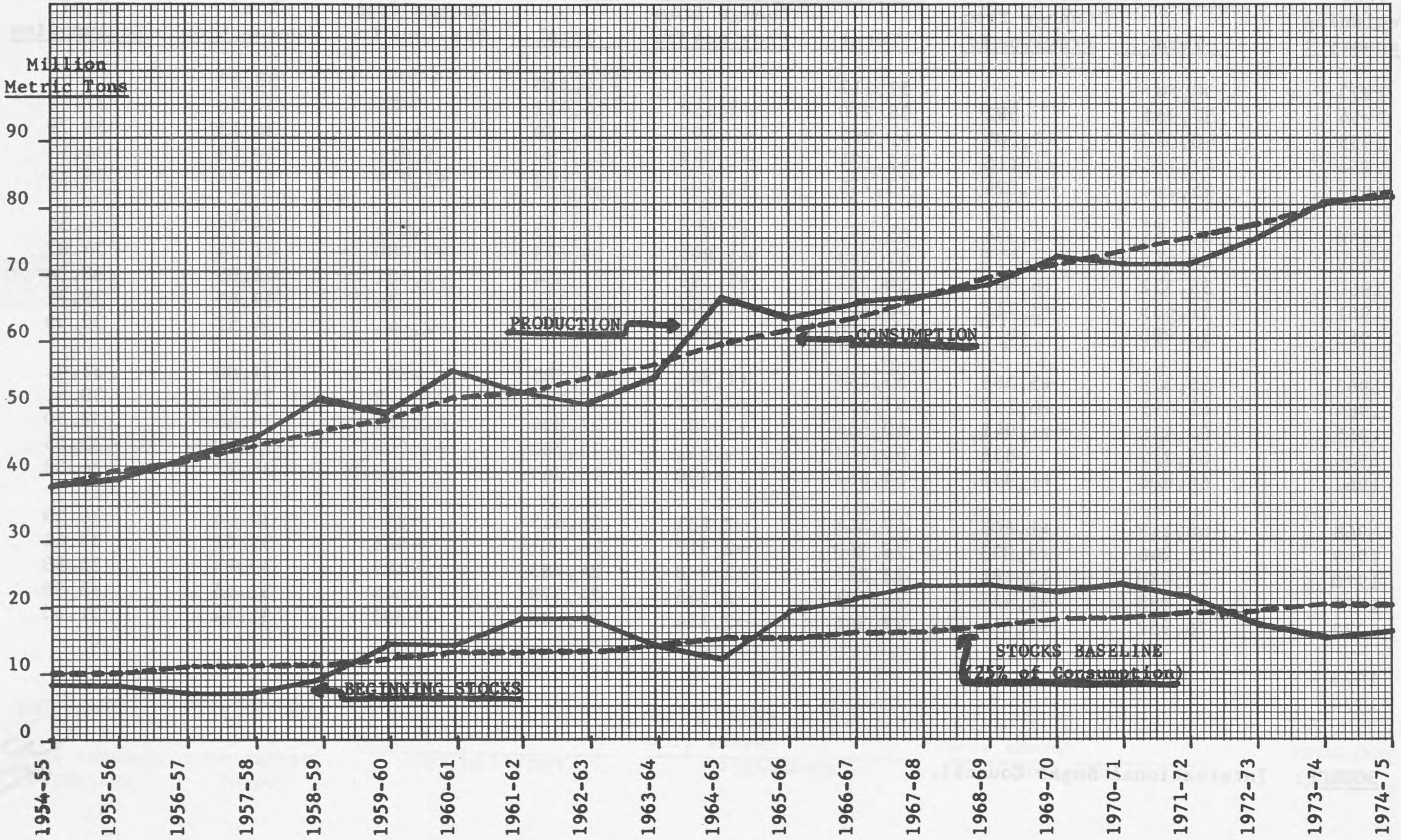
SUGAR: World Production, Consumption, and Stocks
(Thousand Metric Tons, Raw Value)

Year Beginning January 1	Production		Consumption		Ending Stocks		Ending Stocks as a % of Consumption	Beginning Stocks as a % of Consumption
	Total	Change from Previous Yr.	Total	Change from Previous Yr.	Total	Change from Previous Yr.		
1953	38,547		37,117		14,338		38.63	
1954	37,965	-582	38,270	+1,153	14,412	+74	37.66	37.46
1955	40,070	+2,105	40,267	+1,997	14,550	+138	36.13	35.79
1956	41,186	+1,116	42,134	+1,867	12,739	-1,811	30.23	34.53
1957	45,210	+4,024	43,735	+1,601	13,958	+1,219	31.91	29.13
1958	49,544	+4,334	45,691	+1,956	16,593	+2,635	36.32	30.55
1959	49,011	-533	47,583	+1,892	19,673	+3,080	41.34	34.87
1960	55,352	+6,341	50,782	+3,199	21,354	+1,681	42.05	38.74
1961	51,635	+3,717	53,769	+2,987	21,320	-34	39.65	39.71
1962	50,990	-645	53,450	-319	18,476	-2,844	34.57	39.89
1963	56,378	+5,388	55,293	+1,843	17,585	-891	31.80	33.41
1964	62,495	+6,117	57,635	+2,342	20,313	+2,728	35.24	30.51
1965	64,436	+1,941	60,636	+3,001	22,094	+1,781	36.44	33.50
1966	65,272	-836	65,267	+4,631	23,302	+1,208	35.70	33.85
1967	66,608	+1,336	64,667	-600	23,365	+63	36.13	36.03
1968	68,213	+1,605	67,348	+2,681	23,615	+250	35.06	34.69
1969	71,246	+3,033	70,260	+2,912	24,601	+986	35.01	33.61
1970	73,430	+2,184	73,248	+2,988	24,783	+182	33.83	33.58
1971	74,887	+1,457	75,191	+1,943	24,479	-304	32.56	33.96
1972	76,952	+2,065	77,345	+2,154	24,086	-393	31.14	31.65
1973								
1974								

SOURCE: International Sugar Council.

11/19/74

SUGAR: WORLD PRODUCTION, CONSUMPTION, AND BEGINNING STOCKS



SUGAR: Change in Production and Consumption, 1954-55 to 1974-75

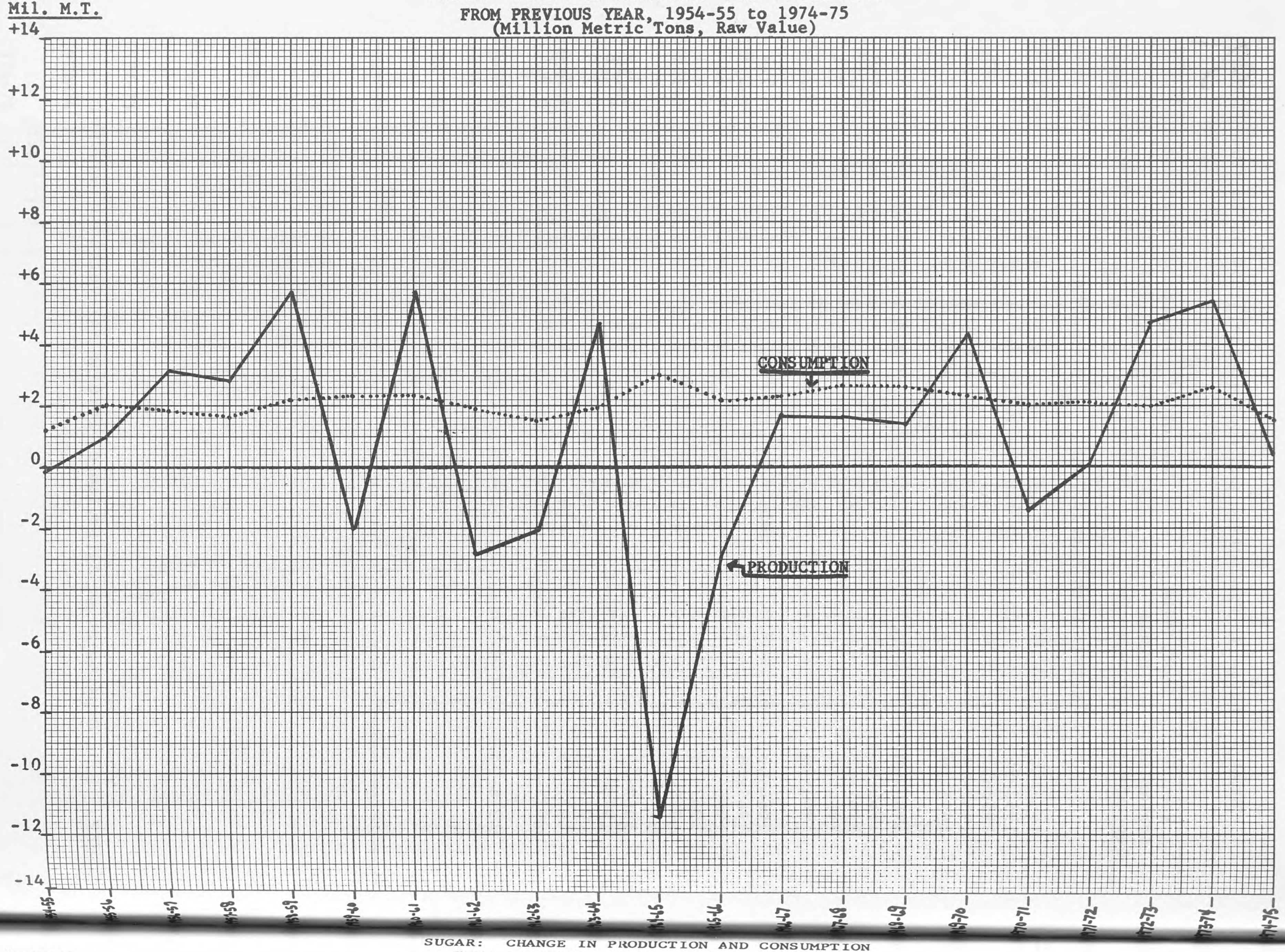
Year Beginning September 1	Production Minus Consumption	Amount of Increase or Decrease Over Previous Year			
		Production		Consumption	
	Million Metric Tons	Million Metric Tons	Percent	Million Metric Tons	Percent
1954-55	0	- 0.1	- 0.3	+ 1.2	+ 3.2
1955-56	- 1.0	+ 1.0	+ 2.6	+ 2.0	+ 5.2
1956-57	+ 0.3	+ 3.1	+ 7.9	+ 1.8	+ 4.5
1957-58	+ 1.5	+ 2.8	+ 6.6	+ 1.6	+ 3.8
1958-59	+ 5.0	+ 5.7	+12.6	+ 2.2	+ 5.0
1959-60	+ 0.7	- 2.0	- 3.9	+ 2.3	+ 5.0
1960-61	+ 4.1	+ 5.7	+11.7	+ 2.3	+ 4.8
1961-62	- 0.6	- 2.8	- 5.2	+ 1.9	+ 3.8
1962-63	- 4.1	- 2.0	- 3.9	+ 1.5	+ 2.9
1963-64	- 1.4	+ 4.6	+ 9.2	+ 1.9	+ 3.5
1964-65	+ 7.0	-11.4	+21.0	+ 3.0	+ 5.4
1965-66	+ 1.9	- 2.9	- 4.4	+ 2.2	+ 3.7
1966-67	+ 1.3	+ 1.7	+ 2.7	+ 2.3	+ 3.8
1967-68	+ 0.3	+ 1.6	+ 2.5	+ 2.6	+ 4.1
1968-69	- 0.9	+ 1.4	+ 2.1	+ 2.6	+ 3.9
1969-70	+ 1.1	+ 4.3	+ 6.4	+ 2.3	+ 3.4
1970-71	- 2.3	- 1.4	- 1.9	+ 2.0	+ 2.8
1971-72	- 4.3	+ 0.1	+ 0.1	+ 2.1	+ 2.9
1972-73	- 1.6	+ 4.7	+ 6.7	+ 2.0	+ 2.7
1973-74	+ 1.0	+ 5.2	+ 6.8	+ 2.6	+ 3.4
1974-75	- 0.4	+ 0.4	+ 0.5	+ 1.5	+ 1.9

SOURCE: U.S. Department of Agriculture, Foreign Agricultural Service.

11/19/74

SUGAR: CHANGE IN PRODUCTION AND CONSUMPTION FROM PREVIOUS YEAR, 1954-55 to 1974-75

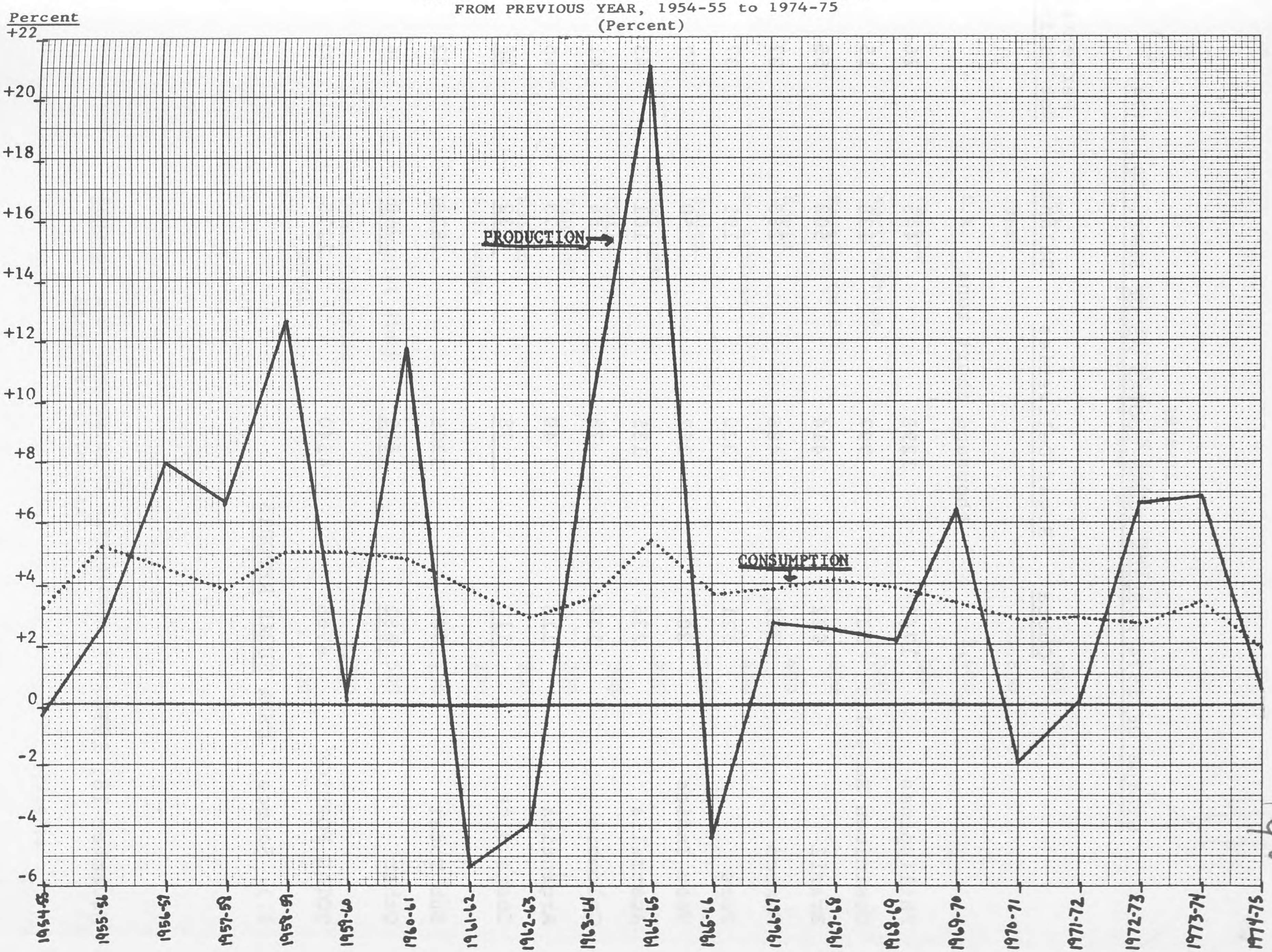
(Million Metric Tons, Raw Value)



SUGAR: CHANGE IN PRODUCTION AND CONSUMPTION
FROM PREVIOUS YEAR, 1954-55 to 1974-75

Percent

SUGAR: CHANGE IN PRODUCTION AND CONSUMPTION FROM PREVIOUS YEAR, 1954-55 to 1974-75 (Percent)



STATUS OF 1974 FOREIGN SUGAR QUOTAS AS OF SEPT. 30, 1974 1.)

	Quota	Sugar Deliveries	Balance	Percentage Not Delivere
		thousand short tons		
Philippines	1743	1298	445	26
Dominican Republic	935	797	138	15
Brazil	922	414	508	55
Mexico	769	486	283	37
Peru	521	330	191	37
West Indies	302	252	50	17
Australia	236	135	101	43
Colombia	132	78	54	41
Argentina	113	40	73	65
Costa Rica	110	78	32	29
Sub Total	5783	3908	1875	32
Other	982	632	350	36
TOTAL FOREIGN	6765	4540	2225	33

1.) Source: USDA SUGAR REPORTS

November 18, 1974

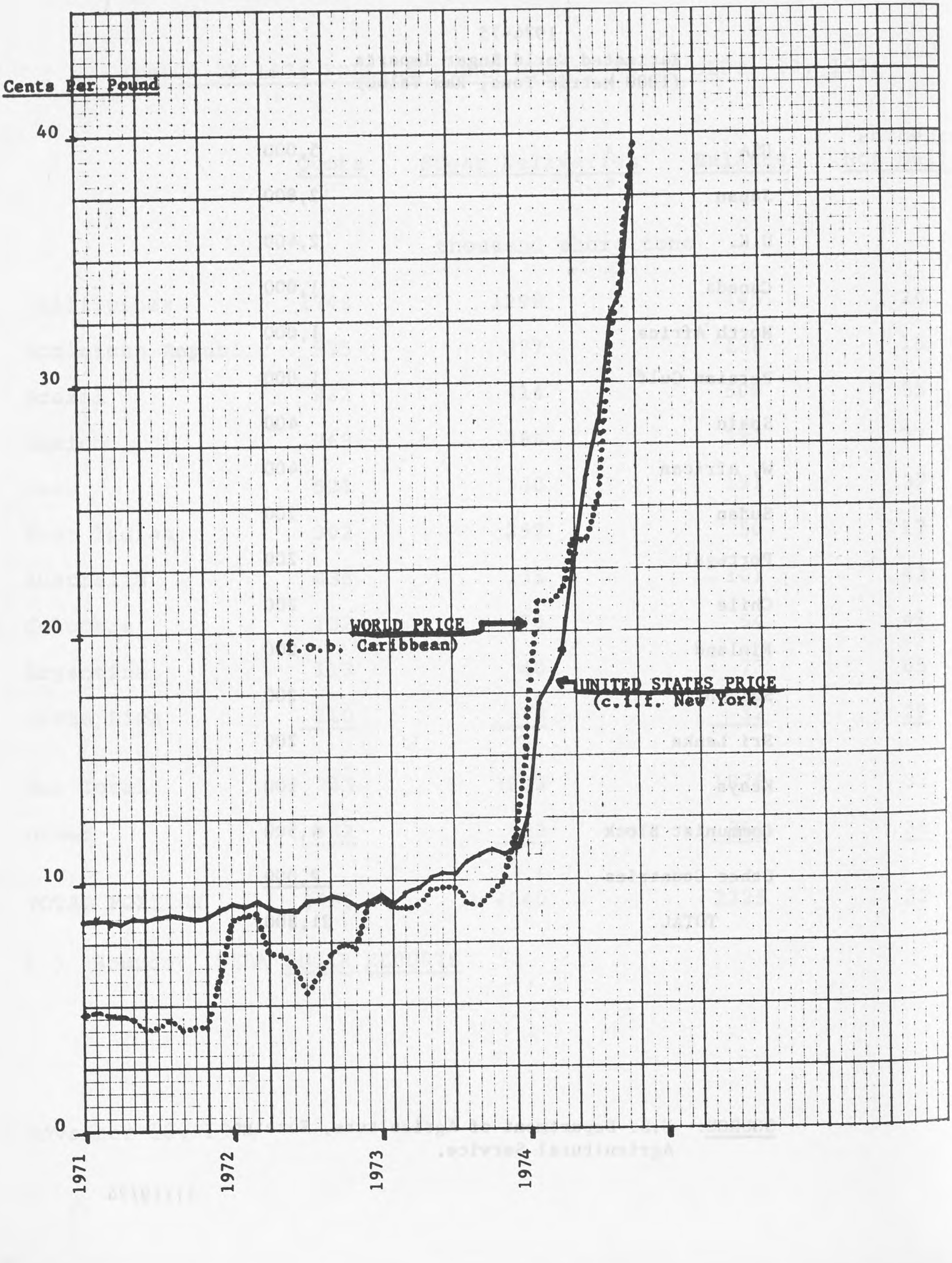
1974-75
Estimated World Sugar Imports
(1000 Metric Tons, Raw Value)

USA	5,000
Japan	2,800
U.K.	2,400
Canada	1,000
North Africa	1,000
Persian Gulf	1,000
Spain	400
W. African	400
Sudan	200
Portugal	200
Chile	200
Finland	200
Saigon	200
Sri Lanka	200
Kenya	100
Communist Block	4,500
Other Countries	2,000
TOTAL	21,800

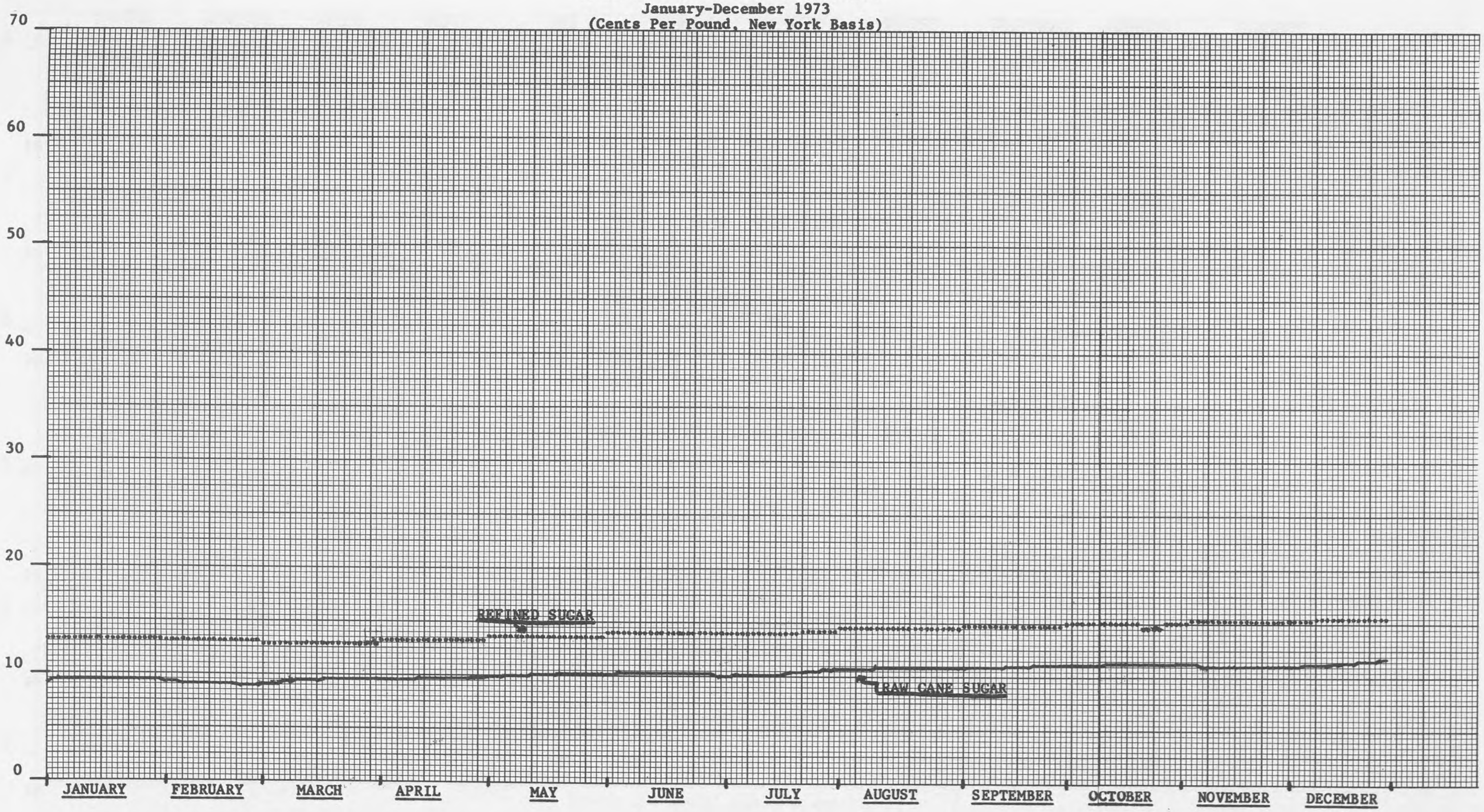
SOURCE: U.S. Department of Agriculture, Foreign Agricultural Service.

11/19/74

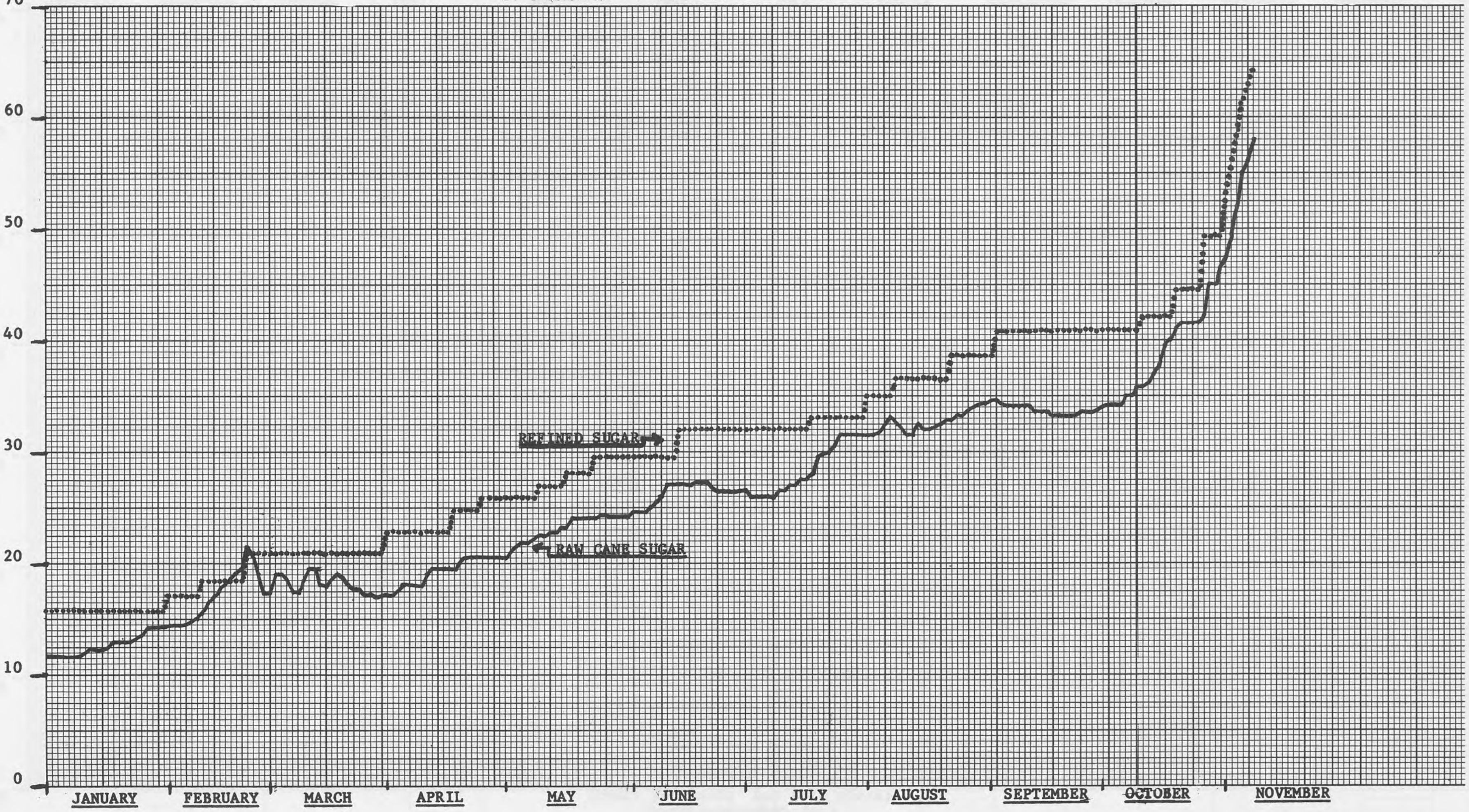
UNITED STATES AND WORLD RAW SUGAR PRICES, BY MONTHS, 1971-1974



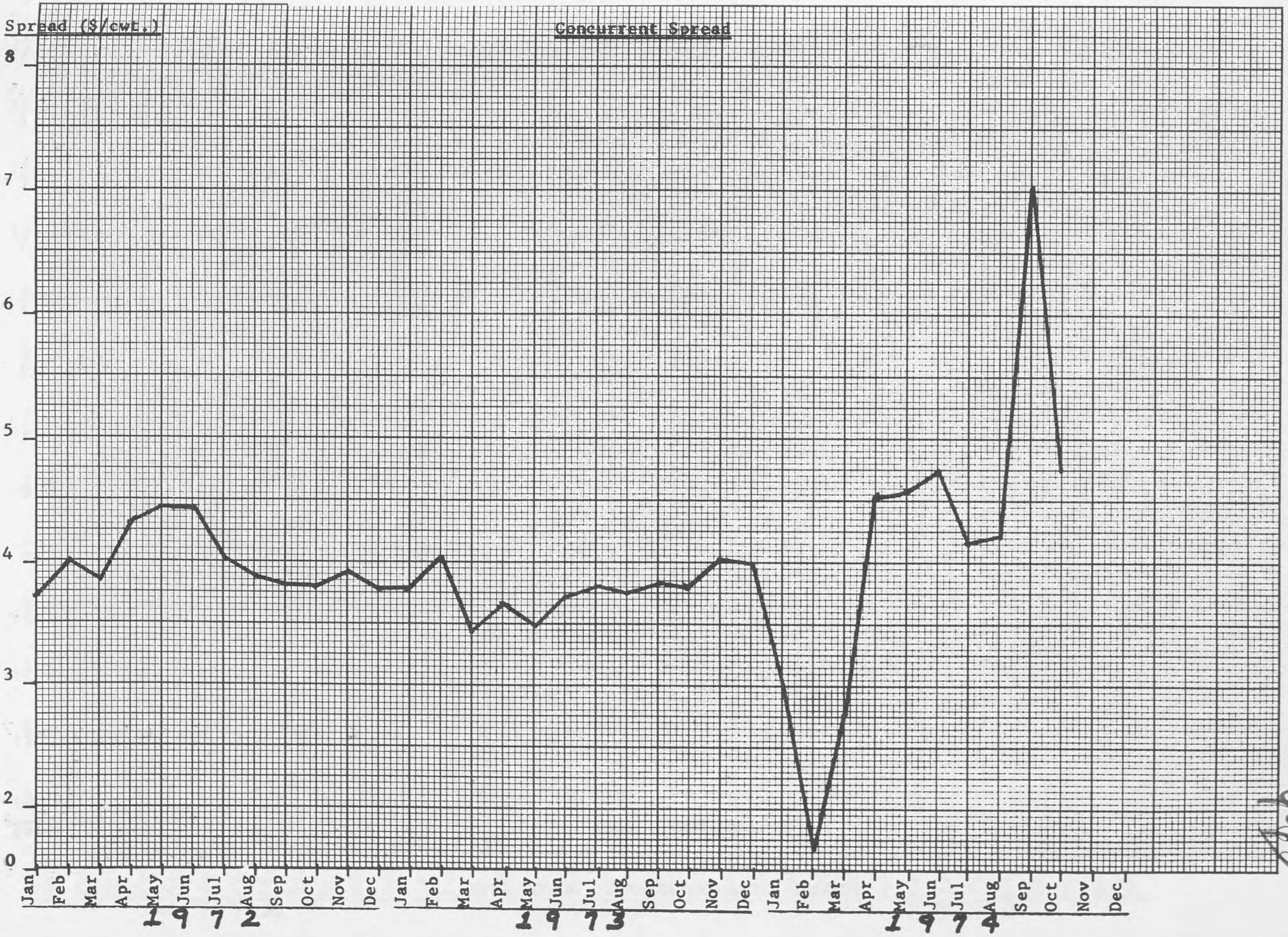
DAILY RAW AND REFINED SUGAR PRICES
January-December 1973
(Cents Per Pound, New York Basis)



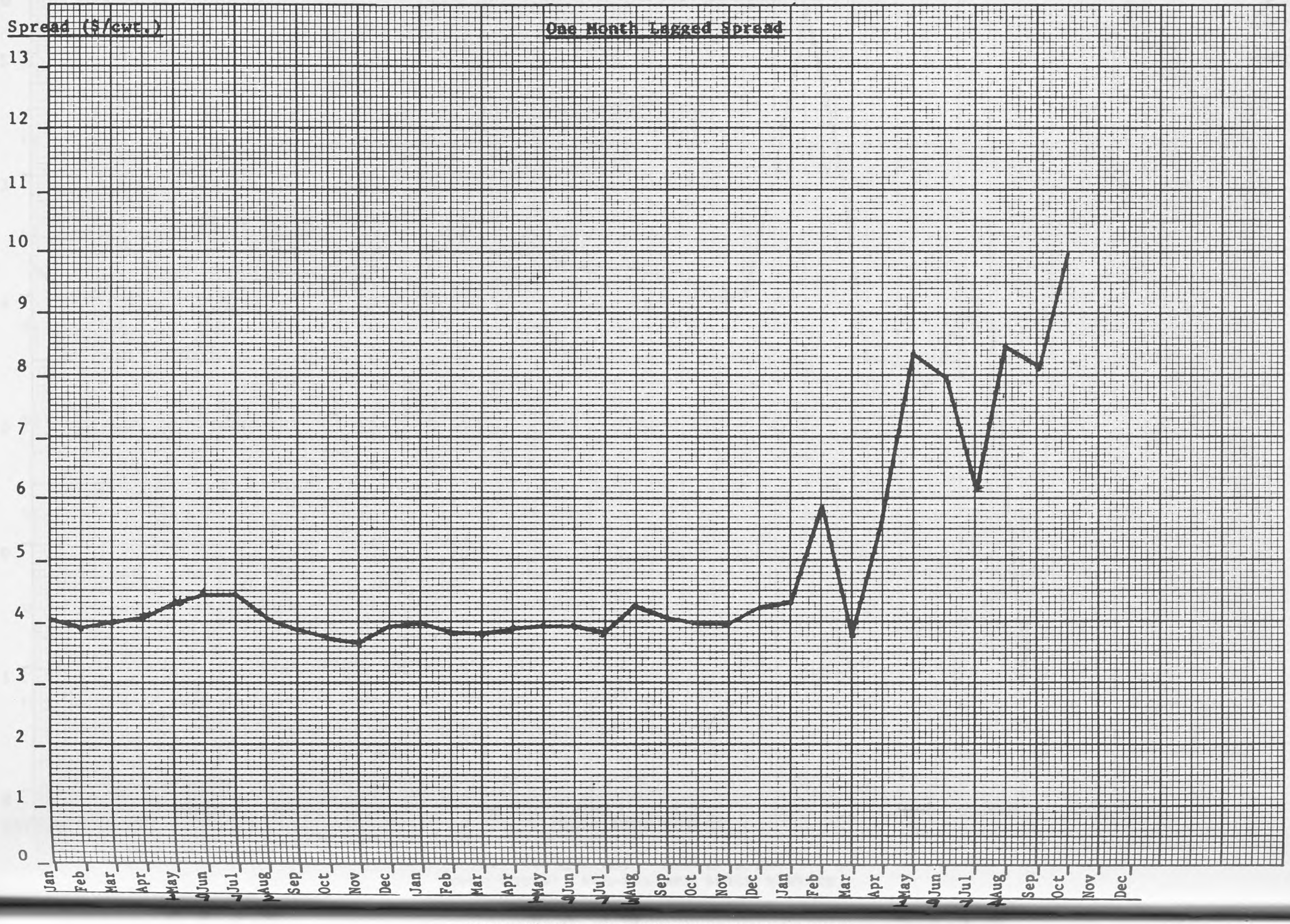
DAILY RAW AND REFINED SUGAR PRICES
January-November 1974
(Cents Per Pound, New York Basis)



CANE SUGAR: RAW-REFINED PRICE SPREADS
(Dollars Per Cwt., New York Basis)

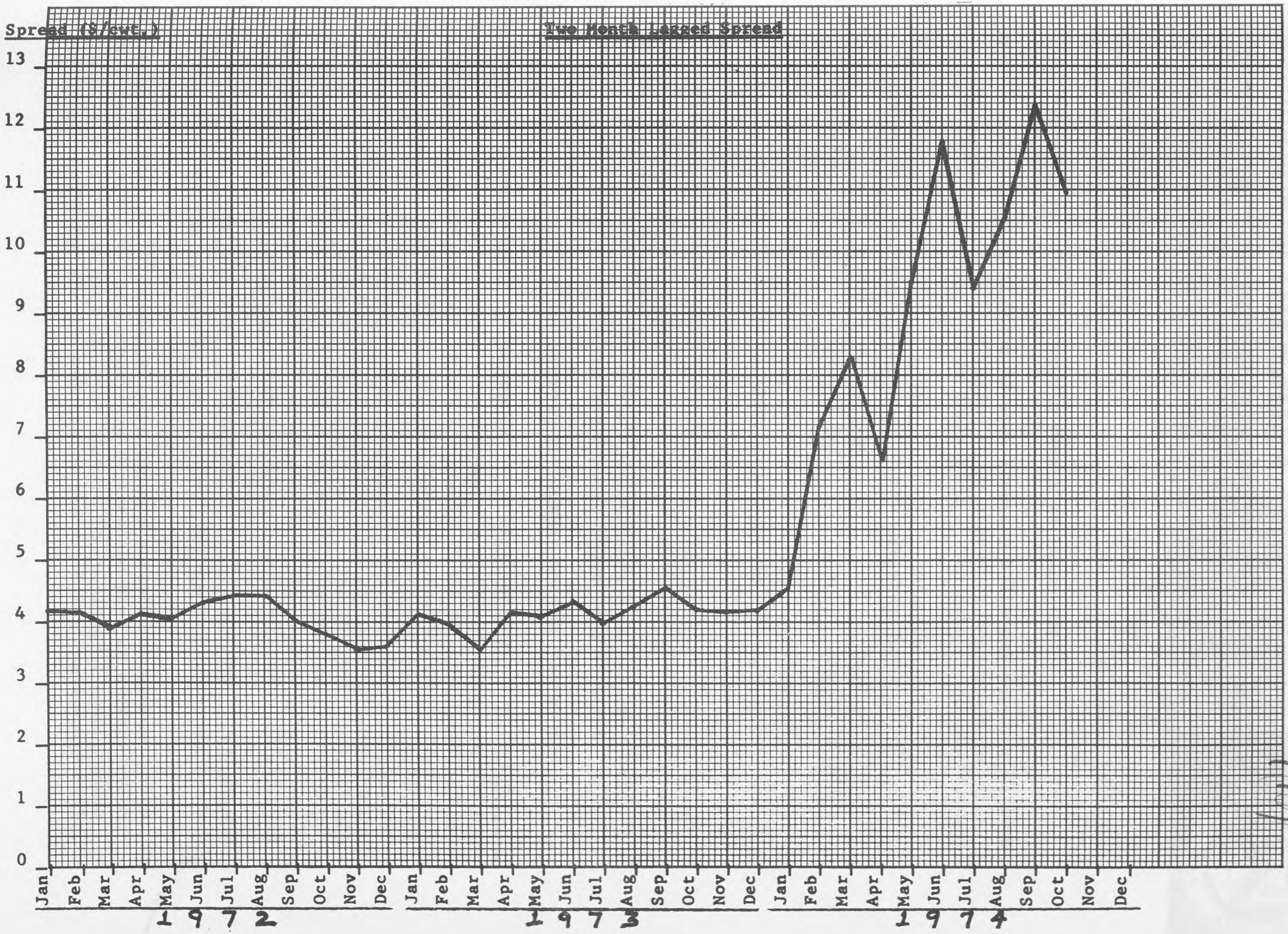


CANE SUGAR: RAW-REFINED PRICE SPREADS
(Dollars Per Cwt., New York Basis)



CANE SUGAR: RAW-REFINED PRICE SPREADS

CANE SUGAR: RAW-REFINED PRICE SPREADS
(Dollars Per Cwt., New York Basis)



Department of the TREASURY
WASHINGTON, D.C. 20220
TELEPHONE W04-2041
NEWS
1789

13-wk		26-wk
7.528	Last week	7.427
7.328	Today	7.369
6.698	Low since 10/7/74	7.364

November 25, 1974

SURY'S WEEKLY BILL AUCTIONS

f 13-week Treasury bills and for $2.1 billion
series to be issued on November 29, 1974,
rve Banks today. The details are as follows:

bills	:	26-week bills	
bruary 27, 1975	:	maturing May 29, 1975	
Equivalent Annual Rate	:	Price	Equivalent Annual Rate
7.260%	:	96.320	7.319%
7.368%	:	96.281	7.397%
7.328% 1/	:	96.295	7.369% 1/

for the 13-week bills were allotted 56%.
for the 26-week bills were allotted 9%.

CCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 45,465,000	$ 32,995,000	:	$ 26,820,000	$ 16,720,000
New York	3,278,590,000	2,283,655,000	:	2,645,950,000	1,698,875,000
Philadelphia	36,150,000	35,375,000	:	42,050,000	22,050,000
Cleveland	61,435,000	51,195,000	:	40,940,000	30,940,000
Richmond	36,700,000	31,800,000	:	17,815,000	17,785,000
Atlanta	53,310,000	42,170,000	:	25,100,000	20,950,000
Chicago	242,900,000	97,400,000	:	262,555,000	108,545,000
St. Louis	57,675,000	29,625,000	:	35,060,000	19,760,000
Minneapolis	12,995,000	4,540,000	:	12,830,000	11,010,000
Kansas City	43,780,000	39,550,000	:	35,650,000	27,250,000
Dallas	32,815,000	20,515,000	:	23,835,000	16,535,000
San Francisco	206,660,000	131,460,000	:	171,850,000	109,850,000
TOTALS	$4,108,475,000	$2,800,280,000	a/	$3,340,455,000	$2,100,270,000 b/

a/ Includes $492,430,000 noncompetitive tenders accepted at average price.
b/ Includes $246,865,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 7.57% for the 13-week bills, and 7.76% for the 26-week bills.

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

1789

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FOR RELEASE 6:30 P.M. November 25, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.8 billion of 13-week Treasury bills and for $2.1 billion of 26-week Treasury bills, both series to be issued on November 29, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing February 27, 1975		26-week bills maturing May 29, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.185	7.260%	96.320	7.319%
Low	98.158	7.368%	96.281	7.397%
Average	98.168	7.328% 1/	96.295	7.369% 1/

Tenders at the low price for the 13-week bills were allotted 56%.
Tenders at the low price for the 26-week bills were allotted 9%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 45,465,000	$ 32,995,000	$ 26,820,000	$ 16,720,000
New York	3,278,590,000	2,283,655,000	2,645,950,000	1,698,875,000
Philadelphia	36,150,000	35,375,000	42,050,000	22,050,000
Cleveland	61,435,000	51,195,000	40,940,000	30,940,000
Richmond	36,700,000	31,800,000	17,815,000	17,785,000
Atlanta	53,310,000	42,170,000	25,100,000	20,950,000
Chicago	242,900,000	97,400,000	262,555,000	108,545,000
St. Louis	57,675,000	29,625,000	35,060,000	19,760,000
Minneapolis	12,995,000	4,540,000	12,830,000	11,010,000
Kansas City	43,780,000	39,550,000	35,650,000	27,250,000
Dallas	32,815,000	20,515,000	23,835,000	16,535,000
San Francisco	206,660,000	131,460,000	171,850,000	109,850,000
TOTALS	$4,108,475,000	$2,800,280,000 a/	$3,340,455,000	$2,100,270,000 b/

a/ Includes $492,430,000 noncompetitive tenders accepted at average price.
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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE NOVEMBER 26, 1974

ERNEST S. CHRISTIAN, JR. APPOINTED DEPUTY ASSISTANT SECRETARY OF TREASURY FOR TAX POLICY

Secretary of the Treasury William E. Simon today announced the appointment of Ernest S. Christian, Jr., of Austin, Texas, as Deputy Assistant Secretary of the Treasury for Tax Policy. He was designated in July of this year and has been Acting Deputy Assistant Secretary since that time.

Mr. Christian serves as deputy to Assistant Secretary Frederic W. Hickman, who has responsibility for formulation and execution of United States domestic and international tax policies. He replaced John H. Hall of Los Angeles, California, who resigned.

Mr. Christian had been the Tax Legislative Counsel of the Treasury since August 1973. Prior to that, he served as Tax Counsel to the Assistant Secretary for Tax Policy.

Before joining the Treasury Department in November 1970, Mr. Christian had engaged in the private practice of law in Washington, D. C. and Dallas, Texas.

Mr. Christian, 37, is a cum laude graduate of the University of Texas Law School (1961). He holds memberships in the Texas, District of Columbia, and American Bar Associations. He and his family reside in the District of Columbia.

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WS-166

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

FOR IMMEDIATE RELEASE NOVEMBER 26, 1974

GEORGE S. TOLLEY NAMED DEPUTY ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY

Secretary of the Treasury William E. Simon today announced the appointment of George S. Tolley, Professor of Economics at the University of Chicago since 1966, as Deputy Assistant Secretary of the Treasury for Tax Policy.

Mr. Tolley, 49, replaces Oswald H. Brownlee, who has resigned to join the faculty of the University of Minnesota.

Mr. Tolley has taught economics for more than twenty-five years, and he also has extensive experience in public policy. A member of the President's Citizen Task Force on Urban Renewal in 1969, he has been a consultant to the Presidential Commission on Rural Poverty, the International Bank for Reconstruction and Development, the Ministry of Agriculture of the Republic of Korea, and the Minister of Planning of Panama, among others. He has served on several committees of the National Academy of Sciences.

Mr. Tolley brings to Treasury a diversified and wide-ranging experience which includes work and publication in fields within economics including urban problems, agriculture, natural resources, environmental problems, economic development and monetary and fiscal policies.

A native of Washington, D.C., Mr. Tolley earned his B.A. degree in Economics at The American University in 1947, and earned his advanced degrees from the University of Chicago, receiving his M.A. degree in 1950, and his Ph.D. degree in 1955. He was the recipient of a Ford Foundation Faculty Fellowship in 1971-72, serving as Visiting Scholar at the University of California at Berkeley during the fellowship period.

Mr. Tolley is married to the former Alice Welch, of Wayne, Nebraska. They have one daughter, Catherine, 5, and reside in Chevy Chase, Maryland.

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WS-167

FOR IMMEDIATE RELEASE
Tuesday, November 26, 1974

For information call:
(202) 456-6757

Statement of
George C. Eads, Assistant Director,
Government Operations and Research
Council on Wage and Price Stability
Before the
Investigations Subcommittee, Commerce
Committee, U. S. House of Representatives
on
Tuesday, November 26, 1974

Mr. Chairman, Members of the Committee. It gives me great pleasure to appear here today to present the views of the Council on Wage and Price Stability concerning the four percent air fare increase recently authorized by the Civil Aeronautics Board.

The Council on Wage and Price Stability was created by Public Law 93-387, enacted on August 24, 1974. Among the duties the Council was given was to "review and appraise the various programs, policies, and activities of the departments and agencies of the United States for the purpose of determining the extent to which those programs and activities are contributing to inflation." (Section 3. (a)(7)). In his October 8 speech to the Congress on the economy, President Ford stated that the Council, in addition to monitoring wage and price movements in the private sector, would act as a watchdog on the actions of the Executive Departments and Agencies of the government that raise costs and impede competition. We were further charged with recommending needed changes in administrative procedures and legislation, when necessary, to correct these practices. It is the function of the office I direct, the Office of Government Operations and Research, to carry out this mandate.

Let me make one point clear at the outset. The Council does not and will not oppose all air fare increases. We do not intend to try to second-guess the Civil Aeronautics Board on which fare levels, taking into account carrier costs and the needs of the traveling public, may be justified. Our sole interest is to see that in reaching its decisions, the Board also takes into account the potential inflationary and anti-competitive consequences of its actions, and acts to minimize those consequences.

Keeping this in mind, let me state our concerns about the Board's recent action.

In its Domestic Passenger Fare Investigation (DPFI), portions of which are still pending, the Board announced certain principles it intended to follow in rate making. It also laid down specific parameters that it intended to employ in deciding whether or not any given proposed fare increase was justified. Among these parameters were a load factor standard of 55 percent.

The load factor standard was adopted to ensure that the traveling public would not be required to shoulder the costs resulting from the operation of excessive levels of capacity. As the Board found in Phase 6B of DPFI and as a CAB Administrative Law Judge has just reiterated, by adjusting load factor standard the Board can effectively control the level of capacity carriers will offer and thus the level of fares that will produce a normal return on investment. If the load factor standard is increased, all else being equal, fares can be lowered. If it is lowered, fares will have to be raised.

The Board also announced that it had determined that the fare elasticity for the domestic trunkline industry was -0.7. This means that in the Board's view a one percent increase in fares will result in a seven-tenths of one percent decrease in traffic. Thus, any fare increase, though it would reduce traffic, would also raise carrier revenues.

We have no quarrel with the basic principles of rate making laid down by the Board in the DPFI. We believe that they represent a considerable advance over the principles and methodology employed by the Board prior to the date of their adoption.

We are concerned, however, about the Board's apparent willingness to apply these standards mechanically, in spite of substantial changes in circumstances that have occurred since the standards were adopted. For example, while we do not question the principle that load factor standard ought to be employed in rate-making, we do seriously question whether the 55 percent load factor standard continues to be appropriate in light of the substantial increases in fuel and other costs that have occurred over the last year.

Continued application of the 55 percent load factor standard during a period of sharply rising costs effectively binds the Board to approve future fare increases regardless of their effect upon the traveling public and upon the long-term health of the airline industry. Moreover, the very principles which led the Board to adopt the 55 percent standard in the first place - the tradeoff between passenger convenience and cost of operation - now dictate that the Board should consider raising the load factor standard, perhaps to 60 percent. Such a change would also be consistent with the Nation's heightened concern over inflation.

We are also troubled by the continued use of the -0.7 fare elasticity in view of the fact that air fares have risen by almost twenty percent over the last two years. Both economic theory and empirical observation suggest that fare elasticity should rise as fares rise. If so, this implies that a given increase in fares will adversely impact upon traffic far more than the Board's current estimates of elasticity would lead us to believe. Assuming this, it raises serious questions as to whether even the future health of the airline industry is best served by further fare increase.

We are also concerned about the Board's apparent willingness to consider a 12 percent rate of return as a standard to be achieved at all times and in all circumstances, in spite of the fact that, "It is quite evident that the failure of air carriers to earn 12 percent on their investment does not pose a threat to the provision of transportation services or cause any other detriment to the public interest or pose a pressing transportation need." (Initial Decision of E. Robert Seaver, Administrative Law Judge, Capacity Reduction Agreements Case, Docket 22908, Served November 18, 1974, pp. 84). This treatment of the 12 percent rate of return standard as a goal not to be deviated from contrasts sharply with the Board's previous position that its establishment of the 12 percent rate of return standard should not be construed as a guarantee that either individual carriers or the industry as a whole would necessarily earn 12 percent at all times (DPFI Phase 9, Decision, pp. 82).

Along the same lines, we are concerned about the Board's apparent disinclination to pay any attention to individual carrier rates of return when deciding upon the reasonableness of the proposed fare increase. I have personally examined the justifications filed by the carriers in support of both the retention of the six percent fuel surcharge and the newly granted four percent fare increase, and found such information almost totally lacking. Only Allegheny and Hughes Air West, two local service carriers, filed data showing the impact of the projected fare increase on their own rate of return. Other carriers, to the extent that they filed any supporting data at all, generally limited their filings to the reproduction of calculations made by American and Eastern which purported to show that a four percent increase would not raise the industry average rate of return above 12 percent, taking the 55 percent load factor and projected industry average cost increase into account. Still other carriers limited their factual presentation to reproducing or referring to two CAB press releases, CAB 74-191 (August 29, 1974) and CAB 74-197 (September 13, 1974). The former of these showed that, on average, carrier fuel prices had almost doubled as compared with the previous year. The latter demonstrated that, assuming a fare elasticity of -0.7, a 55 percent load factor standard, and an average carrier inflation rate of 10.91 percent, the trunkline industry in the absence of a fare increase would earn a 7.66 percent return on investment. Using these two press releases as data, it was simple for carriers to calculate the fare increase required to bring the industry up to a 12 percent rate of return. It is not surprising that most reached precisely the same result.

The Board seemed unconcerned that the four percent fare increase might produce rates of return for certain favorably situated carriers that can only be termed excessive. It also seemed unconcerned that the rates of cost inflation experienced by certain carriers might be wildly different from the 10.91 percent the Board was projecting as a carrier average.

The sort of issues I have just raised suggest that the Board should have suspended the carriers' requests and set the matter down for a hearing. At such a hearing these and other issues surrounding the increase could have been publicly aired, and the carriers would have been required to produce the data necessary to allow the Board to reach an informed opinion on the merits of the issues.

During this period of heightened concern over inflation, it is particularly important that the various agencies of the government take the lead in seeing to it that their actions do not contribute to inflation and unnecessarily restrict competition. While we understand and sympathize with the CAB's desire to minimize regulatory lag and its associated costs, we believe that the long-run welfare of both the traveling public and the industry it regulates demands that the Board take a close look at its current policies regarding fare increases. We hope that such an examination would focus upon the issues we have highlighted, as well as others that are certain to emerge during the course of this hearing.

Thank you.

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WASHINGTON, D.C. 20220
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FOR IMMEDIATE RELEASE November 26, 1974

SUMMARY OF LENDING ACTIVITY
NOVEMBER 4 - NOVEMBER 22, 1974

Federal Financing Bank lending activity for the period November 4 through November 22 was as follows:

-- On November 15, the Bank purchased $6.4 million of notes from the Department of Health, Education and Welfare at an interest rate of 8.40%. These notes were previously acquired by HEW under the Medical Facilities Loan Program. The total commitment still outstanding under the agreement between HEW and the Bank dated October 22, 1974 is $22.5 million.

-- On November 18, Amtrak, the National Railroad Passenger Corporation, made a $3.9 million drawing at an interest rate of 8.023%.

-- On November 20, the Bank purchased $4.7 million of Small Business Investment Company 10-year debentures at an interest rate of 8.20%. The securities are guaranteed by the Small Business Administration.

-- On November 20, Amtrak borrowed an additional $5 million from the Bank at an interest rate of 8%. This brings the amount borrowed to $12.6 million against a $100 million commitment signed October 11, 1974.

Federal Financing Bank loans outstanding total almost $3.7 billion and unfilled commitments total more than $1.9 billion.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE November 26, 1974

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,900,000,000 , or thereabouts, to be issued December 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 September 5, 1974, and to mature March 6, 1975 (CUSIP No. 912793 VY9), originally issued in the amount of $2,005,370,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,100,000,000, or thereabouts, to be dated December 5, 1974, and to mature June 5, 1975 (CUSIP No. 912793 WM4).

The bills will be issued for cash and in exchange for Treasury bills maturing December 5, 1974, outstanding in the amount of $4,709,640,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,332,360,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, 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 one-thirty p.m., Eastern Standard time, Monday, December 2, 1974. Tenders will not be received at the Department of the Treasury, 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.

Banking institutions and dealers who make primary markets in Government

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

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. 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 or Branch on December 5, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing December 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 bills (other than life insurance companies) issued hereunder must include in his Federal 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.

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

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REMARKS BY THE HONORABLE CHARLES O. SETHNESS
U.S. EXECUTIVE DIRECTOR, WORLD BANK
BEFORE THE FORTNIGHTLY CLUB
CHICAGO, ILLINOIS, NOVEMBER 26, 1974, 5:30 p.m. CST

All That "Arab" Oil Money -- What Is It Doing to the Markets?

It is probably safe to say that in the last year the U.S. Government and the American people have learned more and heard more about energy problems, petroleum jargon, Arab sheikhs and Middle Eastern politics than ever before. Indeed, it is probably the case that previously we knew too little of these issues and have only now begun to be properly educated about them. As a mark of how little we knew as recently as a year ago, Herb Stein, the President's economic advisor, is alleged to have developed a series of axioms for coping with a whole new vocabulary. His first rule supposedly was to remember that Quaddaffi is a person and Abu Dhabi is a place.

We have, I think, made some progress since then. We can tell the people from the places, but we have still a lot to learn and much understanding to do. It is with this continuing need for informed consideration in mind that I decided to begin my presentation tonight by reviewing some of the basic facts of the present situation, before concluding with some concrete suggestions as to where we may be going from here.

First, contrary to the title of my talk this evening, oil money is not exclusively Arab held. Indeed, only 55% to 60% of gross oil earnings of $100 billion for this year flows to Arab coffers. The rest flows to Iran, Venezuela, Ecuador, Nigeria, Indonesia and even Canada. This, then, is one of the fundamental points on which we must be clear: not all oil producers are Arab, and Oil Producer I is not Oil Producer II. Among the oil producers there are basic differences which affect directly what these countries may do with their earnings, and what we might reasonably ask them to do over alternate time horizons. It is important to understand the nature of these differences.

In a shorthand sense we can divide underdeveloped oil producers into three broad groups: states with very high oil revenues per inhabitant, whose excess earnings are likely to continue into an indefinite future; states with moderate petroleum revenues per capita; and, finally, states with inflows barely sufficient to match ongoing development and investment needs. The first category -- the very well-off oil producing states in per capita terms -- is comprised exclusively of Arab countries: Kuwait, Saudi Arabia, Libya and Abu Dhabi. The fact is that these countries have extraordinarily large oil earnings in relation to very small populations. Saudi Arabia, for instance, will earn $3,000 from oil sales this year for <u>each</u> of its 8 million population. In Kuwait the GNP per capita this year will be about $11,000, a very impressive figure when we recall that average GNP per capita in this country at the end of 1973 was $6,200, and the same figure for the U.K. is $2,900.

In money terms, then, these countries are all very wealthy. In terms of economic modernization, however, they are still in many cases quite poor and underdeveloped. Domestic markets are small and unsophisticated, and in many instances the question is what to do with large amounts of money in the near term while decisions are made on the best way to invest it domestically and productively without inflationary impact. Even at that, these countries are earning so much in relation to their needs that they can never absorb at home all of their oil income. Willy-nilly, they will become capital exporters.

Iran and Venezuela are examples of countries in Category II. They are nations with large increases in revenue but continuing development needs and an ability to absorb increased oil revenues in the form of domestic investment over the medium to longer term. In the long run these countries have relatively small amounts of surplus funds to invest abroad, although in the short to medium term they do have excess cash which deserves a good return while awaiting use. Further, countries in this group can see very clearly the end of the rainbow of oil; they can foresee the day when oil reserves run out -- not only in relation to needs but also absolutely. For them the pot of black gold is not bottomless, and they will need financial reserves to substitute for oil reserves some day in the not too distant future. They must govern themselves accordingly and must formulate strategies which will permit them to sustain large numbers of people on the basis of other types of enterprise. This will involve ultimate absorption of most oil revenues domestically, but gradually and within the terms of financially sound investments and prudent monetary control. One should recall, however, that despite the ability and need to use oil earnings for development, the present rapid surge in income for countries such as Iran and Venezuela means they will have in the near term surplus funds available for either direct foreign investment, non-productive domestic consumption or expanded reserves.

The third group of oil exporters comprises countries with very low oil revenues per inhabitant. These countries, such as Indonesia, Ecuador and Nigeria, are much better off than they were a year ago, but still very poorly off in terms of almost overwhelming need. This year, for example, despite increased revenues Indonesia's per capita income is still only about $100. This is still very poor, although the situation is not as hopeless as it appeared very recently. For countries such as these there is in essence no excess oil revenue problem. They can spend on imports almost everything they earn, although there remain problems concerning on what and how quickly.

In summary, then, we have three types of oil producing states from whom we can anticipate different things. One group will clearly have earnings far in excess of needs to import, to invest domestically or to build up reserves. These countries should be among the capital exporters of the immediate and longer term future. We must help them become responsible long-term investors. The problem here is not simply recycling oil money, but reinvesting it in a fashion which assures them an adequate return and which is acceptable to the industrial nations.

A second set of states will have excess capital resources through the short to medium term, with tapering surpluses thereafter. These countries can reasonably be expected to recycle some earnings through increased imports of goods and services, while at the same time building up reserves and searching for solid medium term investments they can liquidate as future needs are known.

Finally, there is a category of nations with internal needs so great that they are likely to increase greatly imports from the industrialized states, both for consumption and as a result of domestic investment. Although they may also increase holdings of foreign exchange moderately, there is likely to be a fairly rapid reflow of earnings from these countries back to oil importers. Recycling will occur quite naturally for these countries.

Having made these observations on distinctions among oil producers, let me now make some observations about how these countries perceive themselves and their new found wealth. First, decision-makers in all these countries are acutely aware of something American oil men have talked about for a long time; i.e., that petroleum is a depletable asset. As an asset it is not like investment in productive capacity. Unlike a machine which can be reused to produce numerous salable products, it can be sold only once and is gone forever. American oil men perceived this long ago and have historically been treated to favorable tax considerations because of it.

This same knowledge on the part of oil exporters has produced a series of interrlated reactions. First, petroleum's non-renewable character has been used to defend a very high pricing pattern. Second, it has been cited as a relevant cause for restricting production. Third, -- and this is the argument critical to tonight's discussion -- it affects directly what oil revenue earners of all categories are willing to do with their earnings.

Imagine if you will that you were desperately poor and a finite amount of oil, gold or anything else were discovered on your property. After an initial heady response of buying big cars and dining in expensive restaurants, your rational reaction would be to save and invest for the day when the oil or gold runs out. And, since these savings and investments will have to carry you through your older age when current income is low, your inclination will be to invest at as low a risk compensurate with a decent return as possible. You will most emphatically not want your savings eroded or your capital reduced.

Oil earners are reacting exactly as you would expect. Initially, consumption -- in the form of fast cars, or whatever -- begins to give way to saving and investment. From our standpoint, of course, consumption of fast cars means exports and, therefore, recirculation of oil revenues immediately. Insofar as oil exporters could buy these cars as quickly as they earn money, there would be no global problem. There is, however, a practical limit to the number of these vehicles any country wants or needs, and rational leaders begin to look for ways of producing domestically items in demand. Domestic investment in factories or local infrastructure usually requires imported technology or equipment to succeed and also recirculates revenue over the gestation period of the investment. This is a rapid way of recycling, too, but again poor and semi-feudal societies need time to digest modernization and industrialization. Only so much domestic investment can be absorbed, leaving excess money. Beyond this, excess capital in the form of savings may be held either abroad or domestically. Insofar as they are held abroad they will be effectively recycled, although the terms on which their savings are exported are of critical importance.

I will speak about numbers in just a moment, but before doing so, I should say a word about the character of the oil country reaction so far. If these countries have demonstrated one thing it has been a very prudent, conservative approach to use of their oil revenues. Global speculation on their part in the form of massive shifting of capital has not yet occurred despite fears that it would. This is not surprising. If you hold non-productive assets like money, rather than productive assets like steel mills, it will be in your interest to maintain a viable and smoothly functioning international trading and monetary system. If you have to import all of your breakfast cereal and computers you do not want to disrupt your ability to do so. Disrupting the system by large scale shifts is simply not in the oil exporters interest. If anything, the problem has not been speculative manipulation as many had feared, but, perhaps something more akin to excessive caution. The real difficulty has been a tendency by oil exporters to like short-term deposits in large international banks, and strictly blue-chip investments in European and American firms and countries.

Why has this been so? Well, the newly rich are often quite conservative. There is an inclination to make low risk investments and ones which can be quickly turned to cash. This preference for liquidity even to the extent of accepting negative real rates of return at a time of soaring prices, results from two countervailing pressures, and a resulting indecisiveness. First, as I have said, some of these countries cannot absorb all of their revenues domestically. They have neither the need nor ability to do so. They must export money, some over the long term and some for the short term. Second, and on the other hand, they are insecure about doing so. Native Americans, Englishmen and Japanese have not been the only ones to suffer as a result of the precipitous plunges of their share markets. Some sheikhs have taken baths, too, and they have become very wary.

Beyond this, they are affected by very real political concerns. Despite our public defense of freedom of international capital flows, Arabs especially, are not unaware of what they perceive to be a historical anti-Arab outlook here and a rising political concern with foreigners purchasing American real assets. One need only recall politically sustained attacks on Japanese hotels in Honolulu and the Kuwaiti purchase of an East Coast island to see cause for this concern.

Given the situation, including the predominantly Arab desire for riskless investments and political assurances, what has been our experience to date? What has happened to oil revenues so far and how must present flows be altered? First, and this reflects some of the indecision on the part of oil producers which I just mentioned, there has been a tremendous increase in the monetary reserves of the oil countries. These reserves, which are often held externally in London or New York, are held in short term accounts which may be drawn down quickly and which increase pressure on the accepting institution's equity base.

For the main members of OPEC, reserves have risen $25 billion in the past year to an aggregate of $38 billion. This represents almost 20% of total world monetary reserves and compares to a total of $15.7 billion for the U.S. Disaggregating for a moment we see that Iran's reserves have grown sixfold to over $6 billion, while Nigeria now has reserves of $4 billion. Perhaps more spectacularly Saudi Arabia has moved from 13th place as a holder of reserves to fourth, following only Germany, the U.S. and Japan. At the end of 1975 aggregate reserves for these countries could total $120 billion if present trends were to continue, and under similar assumptions would reach an incomprehensible $1.2 trillion by 1985.

In addition to expanding reserve holdings, though, what may we expect in terms of increased imports by these countries? Clearly they <u>will</u> increase imports but to what extent is far from clear and will vary from country to country. Last year alone imports were $20 billion for all OPEC countries, an increase of 33% over 1972. Continued annual increases on this scale are not likely simply because of absorptive constraints in the countries themselves, and it is difficult to project what their import levels will be with precision. Even assuming imports continued to grow at past levels for 3 or 4 years, however, there would be in aggregate terms surplus capital for export. It is this surplus capital which is perhaps of greatest interest and which has occasioned the greatest amount of general press comment.

Determining precisely where oil revenues have flowed so far is matched in difficulty only by predicting where it will go in the future. Of roughly $45 billion in foreign OPEC investments made between January 1 and October 31, about one-third went to Euro-currency banks -- mostly large, reputable ones and often on short terms. Another $10.5 or so billion came here, of which about $5 billion was put in marketable government securities. Of the approximately $10 billion funneled to Europe and Japan directly most has gone to government securities in the most financially stable countries. All of this is quite in accord with what I said earlier about these countries choosing relatively low risk, short term investments. This is indeed one of the fundmental difficulties which I would suggest we must work to overcome.

In addition, and not incidentally, oil producers have already made some money available to underdeveloped countries on fairly easy terms. So far this year OPEC countries have made bilateral commitments of $7 billion to LDC's, of which $6.5 billion has been on concessional terms. Most of these commitments have been to poor non-oil producing Arab states, but $1.3 billion has been committed to India and Pakistan. Simultaneously, OPEC countries have invested $1.3 billion in World Bank bonds, although these investments are by no means concessional and do not meet directly the needs of the poorest countries most seriously affected by high oil prices.

As you can tell from all of this there remain basic uncertainties about future flows of oil earnings, uncertainties which stem as much from political and perceptional causes as for objective financial and economic reasons. A fundamental ambiguity, of course, concerns the actual future price and consumption levels of petroleum. It is this which will determine the revenues to begin with and which will define the total amounts to be reinvested. Unfortunately, no one knows what future prices will in fact be, largely because they are being determined by non-market forces. If nothing else the world cannot support higher prices without massive dislocations, and I am personally optimistic that over the long run the relative price of oil must and will fall. In the short run, whatever our hopes and desires may be, however, a realistic planner might well assume there will be no great change in prices. Nevertheless, one simply cannot rule out a change -- down or up -- at any moment, precluding any scientifically precise estimates of future buildups or flows.

Further, and for all of the reasons I have suggested, we cannot say with precision what the capacity and desire on the part of oil exporters will be to import for domestic consumption and investment, what political decisions will be taken by oil producers on providing aid or what kinds of investments will be made and where. Taking one rather straightforward example, we have no crystal ball which tells us how much these countries will wish to spend on military hardware. Aside from policy questions of to whom we should sell armaments and how much, the western world as a whole simply cannot project demand for these items. Whatever it is will depend on such fluid situations as the pace of Arab-Israeli negotiations and other regional power relationships.

Given these ambiguities, however, we must not forget the world does have a problem and the U.S. is very important to any solution. I would suggest there is much we can do to begin to see our way through these dilemmas and ambiguities on both tactical and strategic levels. First, on the tactical level we must encourage oil producers to continue some of the marginal policy alterations they have begun. We must urge them to continue to lengthen the terms of their Bank deposits, and induce them to spread these deposits to many institutions in many lands. Second, we should have no objection to them making low risk investments in U.S. Government securities. Next, we and other industrialized countries, must remain open to and positively encourage equity investment in our firms, with a goal of providing the oil producers transfers of technology and training without relinquishing active control of our own productive capacity. Finally, we should continue to urge that these countries make resources available to other developing countries, especially on a concessional basis, but also in the form of investment and advance payment for future exports.

On a strategic level, the role for the U.S. is a vital one. As you are aware, Secretaries Simon and Kissinger have recently made public statements on the broad character of our response to the current global energy situation. Indeed, Secretary Kissinger's speech was made right here in Chicago on November 14th. The proposals in their statements bear directly on the future worldwide flows of OPEC oil revenues, and I think it would be useful for me to conclude this evening with a brief review of important parts of them.

First, we are engaged in a two-pronged effort to establish solidarity among oil consumers while at the same time we seek to encourage responsible behavior on the part of oil producers. These two goals are not mutually exclusive, and there is no reason why oil consumer solidarity should be viewed as confrontational by OPEC countries. Indeed, we are well aware of the legitimate needs of OPEC countries to determine rationally and on their own their own development and investment priorities in response to the needs I discussed earlier. In addition, however, we think it reasonable to ask them simultaneously to be aware of their responsibilities to other developed and underdeveloped nations and the international financial and trading system as a whole.

On the side of consumer solidarity, we have proposed a number of actions. First, we have recommended establishment of a new international loan facility with assets of perhaps $25 billion. This body would be prepared to lend money at market rates to countries in need, in return, of course, for their cooperation in conserving on petroleum consumption. Although mechanisms for this loan facility are unclear, its fundamental function will be to ensure needed capital flows to all industrialized countries, using at least indirectly oil countries' external investments. I must be frank. Effecting such a proposal may cost the U.S. some money, but it will be money well spent if we can avoid massive dislocation in the industrialized world and maintain the health of our capital markets.

Clearly, though, additional money available even at semi-commercial rates is far too expensive for the poor countries of the world. It is here that the OPEC countries have an especially important role to play. For Kenya and Bangladesh, for example, reducing oil consumption is almost impossible, but at the same time commercial borrowing to pay for past levels of imports is unsupportable. One way oil producing countries can assist in answering this dilemma would be for them to expand aid allocations and establish a trust fund managed by an international institution and receiving concessional contributions from OPEC members. A trust fund of this type might well offer credit at low rates and on long terms and would serve the vital purpose of providing funds to the most seriously affected on terms which are not appropriate for other borrowers. But, whatever the actual mechanism for providing this type of credit might be, there remains for the OPEC members a clear responsibility to provide at the highest level possible additional concessional funds for the poor countries of the world.

For their part the OPEC countries must recognize that their position in the world economy has already changed dramatically. These countries will continue to have greater influence in the world even with a substantial fall in oil prices. These countries are now the major surplus countries of the world, with a surplus of a magnitude unprecedented in history. It is vital to the maintenance of a sound and equitable world economy that they accept, without delay, the responsibilities which have historically fallen upon major creditor countries.

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REMARKS OF THE HONORABLE GERALD L. PARSKY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE AMERICAN-ARAB ASSOCIATION
FOR COMMERCE AND INDUSTRY, INC.
AT THE HOTEL PIERRE, NEW YORK, NEW YORK
1:30 P.M. EST, NOVEMBER 26, 1974

I am delighted to have the opportunity to be here to address the American-Arab Association for Commerce and Industry. By bringing together a unique combination of American business leaders interested in developing industrial relations between the Arab world and the United States, your organization is playing a vital and complementary role to what the U.S. government is seeking to achieve. Today, I would like to discuss with you our governmental objectives in this effort, at the heart of which is a desire to work cooperatively with the Arab world. We have not, and do not, seek confrontation with the oil producers. We are seeking to resolve our differences through mutual understanding and are striving to build a framework of broad economic cooperation between the U.S. and the Arab world.

In order for this objective to be fully realized, however, we must ensure that conditions exist which will foster free foreign trade and investment throughout the world. Everyone is becoming more and more aware of how interdependent our world is today. As such, it is important to recognize that the solutions to our problems lie in strengthening this interdependence -- not weakening it. Unconstrained bilateralism, artificial restrictions on supplies of goods or any efforts to distort trade and investment must be avoided by consumers and producers alike.

International Cooperation in Energy and Finance

This basic theme underlies the proposals for international cooperation in energy and finance as outlined recently by Secretary Kissinger and Secretary Simon. The policy involves three parts -- cooperation among the oil-consuming countries; the development of sound U.S. domestic energy policy that will reduce our dependence on foreign supply; and cooperation with the oil-producing nations. Because I have spent a good deal of time working on the third aspect of this policy, I would like to concentrate on it in some detail.

Cooperation Among Consumers

Before doing so, however, I would point out that the aspects of the proposal relating to consumer cooperation are part of our firm belief that in light of continued excessively high oil prices, we must combine our energy and financial policies if we are to maintain economic stability. With respect to the financial side of this cooperation, I believe there may be some confusion as to the evolution of the U.S. position.

The proposal for establishment of a new mechanism to provide stand-by financial support with assets of as much as $25 billion available for the year 1975 does not represent a shift in Secretary Simon's view or a change of U.S. policy. We have felt, and continue to feel, that our policy should be to place maximum prudent reliance on private markets, and we have also recognized that various forms of bilateral and multilateral financial facilities would be used to carry out those aspects of the recycling task which the private markets could not, or should not, seek to handle. The private sector and official facilities already in place have handled the recycling thus far, and we expect that they will continue to do so. Of course, there are limits to the extent that commercial banks can absorb the massive and growing volume of OPEC revenues, and the growth in bank assets will be slower in 1975 than it was this year. Yet, there is still plenty of room for growth in other segments of our private markets, including in particular the international and U.S. bond markets.

Nevertheless, we recognize the desirability of establishing a facility, apart from the IMF, which can supplement the private market and other official recycling facilities and provide a financial "safety net" for the major industrial economies. We think a particularly important aspect of this plan is the way it seeks to bind conservation efforts to assistance in financing so that the nations that have to call on this supplementary financing will be required to take the necessary policy actions to contribute to a common effort to solve the underlying problem.

Cooperation with Producers

At the same time that this policy for financial and energy cooperation among the consumers has been evolving, we have been undertaking an intensive program of economic cooperation with the countries in the Middle East. THis has been done, both through the establishment of bilateral commissions with such countries as Egypt, Saudi Arabia and Iran and through less formal, though intensive, dialogue with such countries as Kuwait, Abu Dhabi and Qatar. Having had the opportunity to work closely in all these efforts, I have learned that the problems confronted, and in turn the aspirations expressed, by these people vary considerably. Too many view the countries of the Arab world as all the same. This is just not the case. The problems faced by Egypt with a large population base, great natural resource potential but severe financial difficulties are not the same as the problems confronted by Saudi Arabia with tremendous financial resources but with a very small population base and thus limited manpower resources. Such basic differences have resulted in differing forms of U.S. cooperation with these countries.

Egypt. Looking first at our work with Egypt, I believe this country probably offers enormous growth potential. Its relatively skilled labor force and literate population; its good climate and natural resources; and its domestic market of 35 million people plus access to the rest of the Middle East are central ingredients to economic development. However, there are basic economic and financial problems which Egypt faces and which must be solved if the potential is to be realized. Per capita income is only about $240 and efforts to improve this figure are burdened by a rapidly growing population that is increasing at about 3 percent a year. The heavy defense expenditures of the last decade left little for public investment in the non-defense sector and, as a result, most of Egypt's infrastructure is in need of rebuilding. Transportation, communication, sewage and housing are major problem areas.

We are convinced that the policy leaders in Egypt are seeking to improve this situation. Prime Minister Hegazy and Minister Taher Amin, both of whom I have worked with closely, are determined to make the necessary changes to strengthen Egypt's economy. We have stressed to them that private investment is the key to the development of Egypt's economy and that this investment will only come if there is a proper legal and institutional framework and a generally attractive economic climate. We are pleased with progress that has been made to date in establishing these underpinnings.

I do not mean to suggest that supplementary forms of financial aid to Egypt are not important. In fact, we have requested from the Congress $250 million for Egypt for fiscal year 1975, of which $170 million is targeted for Suez reconstruction and clearance and $80 million will finance commodity imports. Also, Egypt will be one of the main recipients of food aid shipments under our PL-480 program. For instance, we have signed agreements with Egypt for wheat in the amount of 300,000 tons, which makes Egypt on of the largest recipients under the program. In addition, we have arranged financing under CCC credits for cotton and tallow.

All of these forms of assistance are an important part of our cooperation; and with private investment will lead to a more viable and diversified economy and a sustained rate of growth. We have been working with the Egyptians on a number of initiatives that will help attract increased investment. We have made considerable progress with respect to a tax treaty. A new investment law has been passed which will facilitate private capital formation. Under this law there are no restrictions on the repatriation of profits. Similarly there are no requirements as to equity ownership, except in the case of a joint venture in banking where 51 percent Egyptian ownership is required.

We have also had a special team in Egypt reviewing Egypt's project development capability. A critical element to attracting investment is the development of feasibility studies to demonstrate the potential for return on the investment. The Egyptians are particularly interested in this, and we should have a cooperative program underway shortly to assist them.

There is no question about the Egyptian Government's desire for U.S. participation in the Egyptian economy. They recently presented me with a list of projects amounting to $2.3 billion for which they are seeking U.S. private sector involvement. And they are making needed changes in their system. For instance, they have granted authorization to allow U.S. banks to establish offices in Egypt and I am pleased to note that the Federal Reserve Board recently approved the applications of two U.S. banks to establish operations in Egypt. This is an extremely important development because of the vital role which international banks can play in the development of the Egyptian economy, particularly in facilitating the inflow of foreign investments and arranging the financing of major development projects.

Finally, and one of the most intriguing dimensions of our efforts with the Egyptians, is a concept which we have termed "triangular investment." It is an effort to join Egyptian projects, U.S. technology and other Arab capital. I discussed this at length on my recent trip to Kuwait, and the idea was favorably received. The Kuwaitis expressed a genuine desire to invest in Egypt and welcomed participation by the United States. Arab countries such as Kuwait want to be sure that the United States private sector is committed to investment in Egypt for the long term and welcome specific proposals. I mentioned several possibilities, including investment in the pulp and paper area as well as the sheet glass sector. Such projects would call for capital investment of about $250 million. We will be exploring in weeks ahead specific projects that could be conducive to triangular investment and will be discussing the triangular investment concept with other countries. I believe this form of investment can make a unique contribution not only to our efforts to build closer economic relations in the Middle East, but also to our desire to facilitate the orderly flow of funds from the oil-producing countries to the rest of the world. Seen in this way, our bilateral efforts with individual Arab countries can eventually be joined in economic cooperation throughout the Arab world.

Saudi Arabia. In this regard, I would like to turn briefly to our efforts with Saudi Arabia, a country which poses a very different challenge from Egypt.

First, the Saudis must determine how to accomplish their very ambitious plans to industrialize and diversify their economic structure; Second, they must decide how to efficiently and responsibly utilize surplus monetary reserves which have resulted from the increasing oil revenues.

The accrual of wealth taking place in the producing countries today is unprecedented in the history of the world economy. This year alone the OPEC countries will receive nearly $90 billion from their petroleum operations. This $90 billion is five times more than they accrued in 1972. Their actual income for 1974, if production rates and prices are maintained at current levels, will amount to $100 billion. When you take into consideration that OPEC members will receive approximately an additional $5 billion for the exports of services and commodities, their total receipts this calendar year will reach $95 billion. We estimate that after spending $35 billion for imported goods and services, $60 billion will be available for investment in world markets and for foreign assistance programs.

And the Saudis, by virtue of their current reserves -- to say nothing of their potential -- will play a critical role in determining the shape of the international economic system in the years ahead. This year alone the Saudis' revenues may reach $25 billion -- three or four times more than last year. The limits of the Saudi economy's ability to absorb imports are such that it is unlikely that 1974 foreign exchange expenditures will exceed 20 percent of earnings. Moreover, with the potential for an increase in production from their current 8.9 million barrels a day to as high as 20 million barrels a day by 1980, the Saudis -- even with an eventual decrease in world oil prices -- will continue to play a critical role with respect to our international financial system.

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In our effort to assist the Saudis in satisfying their desires to diversify their economy and prudently invest their revenues, we have established a Joint Commission on Economic Cooperation. It serves as the vehicle for providing the Saudis with the kinds of technical and managerial assistance they need to develop their economy at a rate which will satisfy Saudi desires. Throughout our meetings with Saudi leaders, they have been most explicit about their desire to develop a self-sustaining economy, less dependent on the hydrocarbon sector. This desire reflects itself in their investment attitude. They want to maintain the most flexible approach in order to have funds available when needed for industrialization.

The thrust of our Joint Commission effort has been to establish working groups covering industrialization, agriculture, science and technology, and manpower and education. Each of these working groups has met once to define areas of potential cooperation, and a number of U.S. technical experts in fields such as customs, port management, the environment, and manpower and education have visited Saudi Arabia. Further, the Saudi industrialization group visited the United States and met with a broad cross section of U.S. private business leaders to identify development goals and priority areas where U.S. technology could be joined with Saudi financial resources in Saudi Arabia. They presented us with a list of projects in both the hydrocarbon and non-hydrocarbon area. Their goal is to invest approximately 17 billion dollars in the hydrocarbon area over the next fifteen years and approximately 1 billion dollars in the non-hydrocarbon area during the next five years. Specifically, there is great interest in developing fertilizer and petrochemical plants to take full advantage of crude and natural gas resources. They are also interested in developing an iron and steel industry based upon domestic mineral resources, and in constructing an aluminum plant which would utilize imported alumina.

These projects are only illustrative. The Saudi desires for industrialization are all-inclusive. However a major difficulty will be in implementing these plans. Sufficient implementation capability to carry out the development plans does not yet exist in Saudi Arabia. Believing that this is their number one problem, we have presented to the Saudis a proposal to bring such a capability to the country. It involves establishing an organization in Saudi Arabia, controlled by the Saudis but initially staffed by experienced foreigners, with the explicit purpose of carrying out the developmental decisions made by the Saudi Government. The scope of activity of such an organization could vary from being responsible for the infrastructure of the country to the entire industrialization development effort. The point, however, is that the capability is needed. Of course, if we had the luxury of time, we could wait for Saudi manpower to establish such an entity. However, the Saudis do not feel they have the luxury of time -- they want to develop now; and that is why I believe they must have the institutional capacity to implement their decisions as soon as possible.

The need for such an organization as well as the scarcity of human resources that exists in Saudi Arabia clearly demonstrates how different this country's problems are from those in Egypt. At the same time, these differing, and yet complimentary, characteristics are illustrative of the potential for full economic cooperation -- and we in the United States want to assist in that union, as well as extend it beyond the Arab world.

U.S. POLICY TOWARD INVESTMENT

One important part of that extension involves our policy toward Arab investment in the U.S., an area of particular concern to me. I discussed this subject recently in Kuwait, where I was most impressed by the financial expertise and understanding of investment which the leaders displayed. They expressed a genuine desire to invest in the U.S., but they did feel that we had to clarify our policy with respect to investment. They were willing to adhere to the rules, but indicated that they were uncertain as to what those rules were. Uncertainty is the real enemy of investment, and we must avoid misunderstandings and misapprehensions on the part of both the American people and our Arab friends. Basically, our policy is to welcome foreign investment, with no special inducements and yet no special barriers, except in a few well-defined areas for reasons of national security or to protect an essential national interest.

We are continually reviewing our policies in this area to make sure they are consistent with changing circumstances. But I can envisage no developments that would justify changing the basic belief underlying the policy that investment capital should be free to move to its most productive use in response to free market forces. Maximum reliance on free market forces to direct worldwide investment flows will benefit the United States and all nations.

Admittedly, the potential for investments from the Arab countries in the U.S. is far greater than the foreign investments we have experienced in recent years, but it is important to place the magnitude of this in the proper perspective. In the first ten months of this year about $10-1/2 billion of OPEC funds have flowed into the United States. Yet it appears that less than $1 billion of this went into private securities, real estate and direct investments. The bulk went into government securities, banks, and money markets, and a good portion of these funds were lent to other countries. It is likely that more substantial direct investments will be made in the future, but I believe that the cries of fear of a wholesale purchase of U.S. industry by Arabs are not justified.

I regard the potential for Arab investment in the United States not as a threat but, to the contrary, an important opportunity. The capital requirements for expanding and modernizing our productive capacity, developing our domestic energy industry, fulfilling our other raw material needs, and developing our transportation and other infrastructure needs are enormous. Certainly capital from Arab countries can be put to productive use in our country and it would be the height of folly to raise artificial barriers preventing our companies, our financial intermediaries, and our state, municipal, and Federal governments from having access to this new source of capital funds.

I would like to add that in my discussions with the managers of Arab funds, I found no interest by these countries in taking control over key industries in the West. They don't believe this is feasible or desirable. However, what they do want is a relation of real partnership and not the role of passive money lender. This is an important distinction to them, and we should recognize it as well. Such partnerships potentially could yield major benefits to the U.S. and other Western nations, not only because they will help satisfy our capital needs, but also because they will build strong ties of interdependence and friendship between the Western and Arab nations. With such ties will come a greater understanding of the necessity for international cooperation to build and maintain a strong and stable world economy.

This then is the underlying principle upon which our policies towards the Middle East are built. The only feasible course for the nations of the world to achieve our common and highly interdependent goals of peace, economic stability and growth is for us to work together in a spirit of cooperation. Our work in the economic area has convinced me of the unlimited potential in the Middle East. Unfortunately current political difficulties seem to cloud this potential. However, I see a time when peace will come to this part of the world and when the full economic potential will be realized -- a potential which calls for cooperation between us and among all of the countries in the Middle East. Some older and wiser men may disagree and tell me to stop dreaming. However, I'm still too young not to dream, and I believe that my generation and future generations cannot afford to be without peace and economic harmony in this part of the world. We must commit ourselves to that end and accept nothing less.

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RESULTS OF TREASURY'S 194-DAY TAX ANTICIPATION BILL AUCTION

Tenders for $1.25 billion of 194-day Treasury Tax Anticipation bills to be issued December 5, 1974, and to mature June 17, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

High - 96.000 Equivalent annual rate 7.423%
Low - 95.916 Equivalent annual rate 7.579%
Average - 95.947 Equivalent annual rate 7.521% 1/

Tenders at the low price were allotted 54%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 17,775,000	$ 5,775,000
New York	1,717,835,000	747,115,000
Philadelphia	25,975,000	25,975,000
Cleveland	50,795,000	50,795,000
Richmond	555,000	555,000
Atlanta	4,040,000	3,240,000
Chicago	195,255,000	164,655,000
St. Louis	21,255,000	13,255,000
Minneapolis	44,365,000	41,865,000
Kansas City	75,440,000	46,140,000
Dallas	665,000	665,000
San Francisco	322,055,000	150,755,000
TOTALS	$2,476,010,000	$1,250,790,000 2/

1/ This is on a bank-discount basis. The equivalent coupon-issue yield is 7.93%.

2/ Includes $ 25,310,000 noncompetitive tenders accepted at the average price.