U.S. Treasury Dept.

Press releases.

P R E S S   R E L E A S E S

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NOV.26,1974
through

JAN. 31,1975

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

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

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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

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

FOR RELEASE 9:30 A.M. TUESDAY, DECEMBER 3, 1974

STATEMENT OF THE HONORABLE DAVID R. MACDONALD
ASSISTANT SECRETARY FOR ENFORCEMENT, OPERATIONS
AND TARIFF AFFAIRS
DEPARTMENT OF THE TREASURY
BEFORE
THE NATIONAL COMMISSION FOR THE REVIEW OF
FEDERAL AND STATE LAWS RELATING TO
WIRETAPPING AND ELECTRONIC SURVEILLANCE

DECEMBER 3, 1974
9:30 A.M., EDT

Mr. Chairman and distinguished members of the Commission:

I am pleased to report to you today on the policies and practices of the Treasury Department concerning the use of electronic surveillance by our law enforcement agencies. My testimony will address those electronic surveillance investigative techniques employed by the Bureau of Alcohol, Tobacco and Firearms; the U.S. Customs Service; the Internal Security and Intelligence Divisions of the Internal Revenue Service; and the U.S. Secret Service.

I have with me today, and would like to introduce to you, the following gentlemen from the Treasury bureaus and agencies who are familiar with technical details of the integration of electronic surveillance into the operations of these bureaus: Mr. J. Robert McBrien, Assistant for Privacy Policy, of my office; Mr. Donald Zimmerman, Chief of Intelligence, Office of Criminal Enforcement, ATF; Mr. John J. Molittieri, Senior Special Agent, Office of Investigations, Customs Service; Mr. William Hulihan, Director, Internal Security Division, Office of the Assistant Commissioner (Inspection), IRS; Mr. John C. Holtzhauer, Special Agent in Charge, Counterfeit Division, and Mr. John Taylor, Supervising Security Specialist, Technical Security Division, both of the U.S. Secret Service.

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Basically, there are two forms of electronic surveillance in law enforcement: (1) the use of court-ordered interception of wire or oral communications, without the knowledge of either party to the communication; and (2) the "consensual" monitoring of conversations, where one party, usually the law enforcement officer or an informant, consents to the monitoring. Treasury agencies have used court-ordered monitoring sparingly; consensual monitoring often; together, these forms of interception have been used quite successfully in the fight against organized crime, racketeering, narcotics trafficking, smuggling, counterfeiting, tax fraud and bribery, and firearms and explosives violations.

Treasury criminal enforcement functions, by-and-large, support a regulatory or tax-raising function, such as the collection of duties, excise and income taxes, and the regulation of certain industries charged with a public interest. In the use of these two forms of electronic surveillance on criminals who counterfeit money, smuggle narcotics and evade taxes, we attempt to impress upon our enforcement officers that they are the trustees of the liberties of every law-abiding citizen, just as a bank officer is the trustee of the assets of his depositors.

If I leave no other impression upon this distinguished Commission, I would like this Commission to be aware of one fact: There is generally no way to reach up and convict the principals of criminal organizations without the use of electronic surveillance. To suspend electronic surveillance for three years, as has been suggested recently by a former FBI official, would be to declare a three-year holiday on organized crime and terrorism. A hard fact is that the criminal managers at the nerve center of organized crime ordinarily will not deal with anyone except known members of their own organization. Therefore, to obtain the indelible, ineradicable evidence which enables society to attack the heart of organized crime rather than to nibble on the extremities, requires carefully prepared, legal use of electronic surveillance techniques directed both at the dealings between those in charge of the criminal enterprise and their subordinates and at the vital communications links of the organization.

To illustrate these conclusions, there will be a review

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of a non-consensual (Title III) electronic surveillance used in identifying an actual narcotics ring operating from Mexico to Detroit. A staff member of this Commission will question members of an enforcement team consisting of a former Customs Special Agent and a Justice Department Strike Force Attorney concerning the investigatory and surveillance practices used in that case.

COURT-ORDERED ELECTRONIC SURVEILLANCE

In the six years since enactment of Title III of the Omnibus Crime Control and Safe Streets Act, a total of 36 court-ordered interceptions of wire or oral communications have been conducted by the law enforcement components of the Treasury Department. Of these, 21 have been conducted by the Customs Service, 12 by the Secret Service, and one each by the Bureau of Alcohol, Tobacco and Firearms, the IRS Intelligence Division and the IRS Internal Security Division.

The results of these 36 Title III interceptions are impressive: 264 arrests leading to 116 convictions, nearly all for narcotics or counterfeiting violations. This is an average of slightly more than three convictions for every Title III surveillance. Since eight of these did not produce incriminating conversations, we might compute the ratio based on the 28 productive interceptions, thus reaching an average of just over 4 convictions for every productive Title III. Since at least two of the investigations involving these interceptions are still not concluded, the 4/1 ratio may increase.

I should also note that we have had only nine reversals of convictions so far. Those occurred in one case, King v. U.S., a very successful narcotics investigation which fell as a result of the Giordano decision. The offenses justifying these cases of court-ordered electronic surveillance are serious crimes involving organized crime members and other criminal entrepreneurs in counterfeiting and narcotics trafficking. And, as required by Title III, all other investigative means were exhausted or determined to be fruitless before this important investigative tool was used.

Mr. Chairman, I have submitted for the record three charts describing the use of both court-ordered interceptions and consensual monitoring by the principal law enforcement agencies of the Treasury Department. In examining the chart of our 36 Title IIIs, you will notice that since 1972, the use of court-ordered interceptions by the Customs Service has dropped from 10 to zero. This decline does <u>not</u> reflect a change of attitude about the usefulness and propriety of Title IIIs. Rather, it is the result of the shift of jurisdiction for most narcotics offenses from Customs to the Drug Enforcement Agency of the Justice Department.

I direct your attention to this jurisdictional shift in order to illuminate what we believe is a deficiency in the current Federal electronic surveillance statute.

Section 2516 of Title 18, United States Code, specifies those offenses for which authorization for interception of wire or oral communications may be granted. Absent from this list are offenses relating to smuggling and fraudulent entry of goods into the U.S., cargo theft from Customs custody, munitions control (these are the statutes violated by terrorist groups in exporting arms abroad), and the importation and exportation of monetary instruments.

Unhappily, this is an era of sophisticated, highly profitable international crimes -- the offenses over which the Customs Service has jurisdiction. For example, in its report on cargo theft, the Senate Select Committee on Small Business estimates that 1.5 billion dollars in international cargo is stolen <u>each year</u>. There appears to be an ever-increasing international trade in illegal shipments of weapons, explosives and other implements of warfare such as military-style helicopters. Much of this traffic originates in the U.S. and our neighbors, who suffer the violent results of it, are not happy. The problems appear equally appalling in smuggling and the illegal international movements of monetary instruments.

Additionally, the firearms offense jurisdiction of the Bureau of Alcohol, Tobacco and Firearms is not encompassed by the present electronic surveillance law, and we are considering the practicality of court-ordered interceptions for these offenses which comprise 65% of the ATF's investigative workload. We need the tools to help stop these crimes

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and while we do not consider the use of Title III interceptions to be the only valid weapon for apprehending criminals and reducing crime, we do recognize its great value as an additional technique for the investigation of major crimes. Thus, we are examining the possible introduction of amendments to add to Title III those major offenses under Treasury's jurisdiction which we determine to be most susceptible to investigation by means of court-ordered electronic surveillance.

PROCEDURES FOR TITLE III

I know that you have heard detailed testimony from the Justice Department on the careful procedures and legal safeguards which attend both the process of seeking authorization to apply for a court-ordered interception and the actual operation of the interception. Let me assure you that the law enforcement bureaus of the Treasury Department adhere to the same Justice Department guidelines as other Federal investigative agencies. Additionally, each of the Treasury components must follow its own multi-level review and approval process before that agency's director will authorize an application to the Attorney General for permission to seek a court-ordered interception. Of course, this process, in which each level of review may reject the application, is independent of the parallel review and approval system in the Criminal Division of the Justice Department.

I believe the restrained use of court-ordered electronic surveillance by our bureaus in part reflects the care with which they approach the use of this effective but sensitive investigative technique. Furthermore, while my office does not exert operational control over the individual uses of Title IIIs, my staff is continually examining all of our policies and practices regarding electronic surveillance and will prepare whatever new or amended Treasury Department policies and procedures appear advisable to clarify or improve our use of and accountability for interceptions of wire or oral communications.

CONSENSUAL MONITORING

In contrast to our few uses of court-ordered interceptions of wire or oral communications, the Treasury law enforcement agencies make frequent and extensive use of monitoring and recording of conversations with the consent of at least one party to the conversation. This monitoring, known as "consensual," is a multiple purpose tool for law enforcement investigators without which a great proportion of criminal investigations could not be conducted either safely or productively.

In examining the use of consensual monitoring we find that it is used for corroboration of informant allegations, for preservation and corroboration of incriminating face-to-face and telephone conversations to serve as best evidence, to coordinate the timing of raids and arrests, and to protect the lives and safety of informants and undercover agents. Generally, a consensual is dual purpose; that is, it both preserves evidence and protects the undercover agent or the informant. Probably the majority of consensual monitorings involve the protection of the consenting individual and third parties, and the increase in the use of violence against law enforcement officers, especially undercover agents, will probably cause even greater use of this technique.

A consensual monitoring can be accomplished through use of a transmitting or recording device on the person, premises or vehicle of a consenting informant, undercover agent or other individual; or it may involve an agent listening in on a telephone extension or using a recorder with a telephone while a consenting informant or other individual is one of the parties to the conversation. They are used across the range of crimes investigated by the law enforcement bureaus of the Treasury Department.

This investigative and safety technique is used in many criminal cases under Treasury Department jurisdiction. As the attached charts indicate, in the past seven years there have been 5,070 instances of consensual monitoring by our bureaus. While this number appears large, we believe that its employment (now running at about 1,100 cases a year) is modest in light of the tens of thousands of investigations made each year by our law enforcement agencies. Furthermore, these raw statistics do not reflect that many consensuals may be used in the investigation of a single suspect. For

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example, from January 1 through October 31 of this year, the Secret Service reported 614 consensual monitorings yet they were used against only 279 target suspects.

Mr. Chairman, the Treasury Department's law enforcement bureaus are heavily dependent upon undercover work and informants' revelations to conduct successful investigations against such crimes as smuggling, counterfeiting, trafficking in firearms and explosives, threats against the President, and bribery and corruption of public officials. Without the use of consensuals many of our undercover operations would be too dangerous and the evidence developed from them would be uncorroborated. Informants and cooperating witnesses, who play a significant role in developing leads, arrests and convictions, would either be useless for lack of corroboration or would become uncooperative from fear caused by their lack of protection. We trust that the Commission will strongly endorse the continued use of consensual monitoring to protect the lives of our agents and to bring justice to bear against the criminal element of society.

PROCEDURES FOR CONSENSUAL MONITORING

Like other Federal investigative agencies, the Treasury law enforcement bureaus follow the procedures established by the Department of Justice and their own internal requirements. Thus, in cases of non-telephone consensuals, approval of the Attorney General is sought in advance unless exigent circumstances compel the agency to act immediately. In those cases, the Attorney General is notified as soon as practicable after monitoring has begun. Where only consensual telephone monitoring is planned, supervisory personnel at the Special-Agent-In-Charge level or above must approve its use.

CONCLUSION

Mr. Chairman, I hope my testimony today has contributed to the important work of this Commission in reviewing these electronic surveillance investigative techniques. We all realize that surreptitious electronic surveillance can be subject to abuse and that some Americans perceive it to be a threat to individual freedom. The Treasury Department believes, however, that our law enforcement agencies have used and will continue to use these investigative methods within the letter and spirit of the Constitution and the Omnibus Crime Control and Safe Streets Act.

We are committed to using productive instruments of law enforcement, not to pry into private matters or harass citizens, but to help protect against and apprehend those criminal elements who are preying on the American people and its channels of commerce. In this age of rising crime rates, increasingly sophisticated criminal enterprises and economic difficulties, the American people do not need another impediment to the successful discovery and apprehension of those criminal entrepreneurs who victimize us all while siphoning billions of dollars from our economy.

That concludes my statement. I will be pleased to respond to any questions you may have.

OVERALL TOTAL (CY 1968 - 1974*)

BUREAU SUB-TOTALS	ATF	CUSTOMS	IRS	USSS	GRAND TOTALS
CONSENSUAL	456	1353	2049	1212	5070
COURT-ORDERED	1	21	2	12	36
BUREAU TOTAL	457	1374	2051	1224	OVERALL TOTAL 5106

*CY 74 figures are for the year through October 31.

CONSENSUAL MONITORING
(With One-Party Consent)

CALENDAR YEAR	ATF	CUSTOMS	IRS	USSS	ANNUAL TOTALS
1968	11	219	111	20	361
1969	17	137	164	12	330
1970	32	147	199	36	414
1971	70	106	290	117	583
1972	86	430	406	223	1145
1973	107	234	545	190	1076
1974*	133	80	334	614	1161
BUREAU SUB-TOTALS	456	1353	2049	1212	GRAND TOTAL: 5070

*CY 74 figures are for the year through October 31.

COURT-ORDERED ELECTRONIC SURVEILLANCE

CALENDAR YEAR	ATF	CUSTOMS	IRS	USSS	ANNUAL TOTALS
1968	0	0	0	0	0
1969	0	1	1	1	3
1970	0	2	0	1	3
1971	0	4	1	3	8
1972	1	10	0	6	17
1973	0	4	0	0	4
1974*	0	0	0	1	1
BUREAU SUB-TOTALS	1	21	2	12	GRAND TOTAL: 36

*CY 74 figures are for the year through October 31.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR ... 974

91 Day

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Last Wk. 7.328%

Highest since auction of 11-18-74

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R	16,600,000
A	19,260,000
C	36,635,000
S	18,210,000
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K	23,895,000
D	12,635,000
S	265,910,000
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1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 7.78% for the 13-week bills, and 7.97% for the 26-week bills.

FOR RELEASE 6:30 P.M. December 2, 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 December 5, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 6, 1975		26-week bills maturing June 5, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.142 a/	7.350%	96.214	7.489%
Low	98.041	7.750%	96.168	7.580%
Average	98.098	7.524% 1/	96.176	7.564% 1/

a/ Excepting 2 tenders totaling $150,000

Tenders at the low price for the 13-week bills were allotted 94%.
Tenders at the low price for the 26-week bills were allotted 32%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 48,675,000	$ 48,675,000	$ 25,835,000	$ 15,835,000
New York	2,751,320,000	2,163,920,000	2,952,830,000	1,638,410,000
Philadelphia	45,075,000	45,075,000	12,025,000	12,025,000
Cleveland	59,940,000	59,940,000	36,255,000	36,255,000
Richmond	36,925,000	36,925,000	17,600,000	16,600,000
Atlanta	34,540,000	34,540,000	19,960,000	19,260,000
Chicago	146,730,000	145,230,000	125,950,000	36,635,000
St. Louis	36,105,000	36,105,000	30,710,000	18,210,000
Minneapolis	5,980,000	5,980,000	5,360,000	5,360,000
Kansas City	40,160,000	40,160,000	27,900,000	23,895,000
Dallas	31,175,000	31,175,000	17,635,000	12,635,000
San Francisco	152,630,000	152,630,000	544,095,000	265,910,000
TOTALS	$3,389,255,000	$2,800,355,000 b/	$3,816,155,000	$2,101,030,000 c/

b/ Includes $ 463,340,000 noncompetitive tenders accepted at average price.
c/ Includes $ 238,900,000 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 7.97% for the 26-week bills.

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

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FOR IMMEDIATE RELEASE December 3, 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 12, 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 12, 1974, and to mature March 13, 1975 (CUSIP No. 912793 VZ6), originally issued in the amount of $1,805,935,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,100,000,000, or thereabouts, to be dated December 12, 1974, and to mature June 12, 1975 (CUSIP No. 912793 WN2).

The bills will be issued for cash and in exchange for Treasury bills maturing December 12, 1974, outstanding in the amount of $4,713,950,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,231,930,000 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, Monday, December 9, 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 12, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing December 12, 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 UPON DELIVERY
TUESDAY, DECEMBER 3, 1974

STATEMENT BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE
THE SUBCOMMITTEE ON INTERNATIONAL FINANCE
HOUSE COMMITTEE ON BANKING AND CURRENCY
DECEMBER 3, 1974 - 10:00 A.M.

I am pleased to have this opportunity to testify before the Subcommittee on International Finance with respect to three subjects: gold, the proposed financial solidarity agreement among major oil consuming countries, and negotiations concerning participation in the Asian Development Bank and the Inter-American Development Bank.

With respect to gold I shall attempt to respond to the questions which you put to me, Mr. Chairman, in your letter of November 26.

Your first question was whether I believe there should be a delay in the effective date for the required removal of existing regulations restricting private investment in gold in bullion form as contemplated in H.R. 17475 which you introduced. As you know, present law, Public Law 93-373, sets December 31 of this year as the date for repeal of these restrictions. You also know, Mr. Chairman, that I originally opposed the legislative proposals that would mandate the removal of these restrictions on a fixed date. I was fearful that the date might come at a time when the removal might serve to exacerbate disturbed conditions in domestic or international financial markets. For that reason I have stated on a number of occasions that I would not hesitate to recommend Congressional reconsideration of that date if I felt that market conditions or the state of international economic negotiations made such a change desirable.

Now that we have arrived in December, 1974, however, I have attempted to review the outlook carefully. There are clearly important economic uncertainties present. Yet, when considering the overall situation, I do not see a basis in current market conditions or in on-going international negotiations to propose a delay in removing the regulations. On the contrary, I am inclined to think that on balance there will be positive advantages in repealing the regulations to remove an element of uncertainty from our financial affairs and to take a practical step forward toward our

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objective of ending the official monetary role of gold so that it may ultimately be treated in all respects like any other commodity.

I have discussed these considerations with the President, and with his concurrence I would like to urge the Congress not to take the new restrictive action contemplated by H.R. 17475.

In my view continuing restrictions on the individual freedom of U.S. citizens require clear-cut and compelling justification which I do not believe now exists in the case of gold.

The prohibitions on gold ownership were introduced in 1933 when President Roosevelt required all privately held gold to be turned in to the Federal Reserve banks. This gold was then acquired by the Federal Government under the Gold Reserve Act of January 1934, in return for the issuance of gold certificates to those banks. Up to that time, gold constituted a significant part of the nation's money supply, and in periods of financial stress, hoarding and withdrawals of gold from the banks, as well as gold transfers overseas, had important and deflationary effects on the economy of the country. In fact, the measures taken by the Roosevelt Administration with respect to gold were aimed at reversing a deflationary situation.

The Gold Reserve Act, and other actions taken in the early 1930's, began a trend toward a reduced monetary role for gold. Nevertheless, gold continued to play some role in our domestic monetary system and also was a major means of settling international accounts. It was in these circumstances that domestic gold ownership and use continued to be confined to industrial, artistic and numismatic purposes.

Gold remained as partial backing for Federal Reserve Notes until 1968 when Congress completely eliminated this requirement. As a result of this action, gold now has no function in our domestic monetary system. The removal of the ban on private gold ownership will not change this. As I will explain, the Federal banking regulatory agencies have adequate power to prevent any tendency for gold to develop a domestic monetary function in the future.

Mr. Chairman, I am not able to predict for you with any confidence exactly how much gold U.S. citizens will purchase next year in the form of bullion. Some have predicted sizeable purchases by investors interested in an inflation hedge. That could happen. On the other hand, there are reasons why the total may not be large.

First of all U.S. citizens can now -- and long have been able to -- invest in gold legally. They can not only buy gold in the form of jewelry; they can buy gold in coins, and at only a slight premium over its bullion value. Some coins have a rare numismatic value and sell at a high premium over their bullion value, but there are others in ample supply which can be bought at premiums of less than 10% above their bullion value. This premium is very close to that which will probably be charged in the future on small size bullion wafers and bars, so that the removal of the existing restrictions will not literally expand greatly the opportunities available to the investor.

Investors will also realize that the storage of gold is burdensome and expensive; that it earns no interest; and that it has no liquidity in the sense of an assured price when it must be sold. For the investor who can afford to take the chance it is obvious that the price of gold purchased could go up before the need to sell arises; but it could also go down. In looking back recently, for example, over the history of Treasury operations in the silver market I learned that, throughout the two year period after the Treasury made large auction sales of silver from its stocks form 1967 to 1970, the price of silver was below the average price at which the Treasury had sold.

Recent Japanese experience in this respect may also be instructive. Restrictions on investment in gold by private Japanese citizens were removed in 1973. Immediately thereafter there was a surge in private demand, but the interest quickly died down and now constitutes an extremely small factor in the investment activities of the Japanese.

I realize, of course, that some people have sort of a mystical feeling about gold, but that to me is no reason for our Government to adopt a similar approach. Rather, it is a reason to proceed with the dismantling of anachronistic Government measures seeming to confer some special status on this metal.

In my view international consideration, as well as domestic considerations, make it desirable that we proceed with the scheduled removal of the remaining restrictions. For the past several years my predecessors and I have worked -- with the full knowledge and support of the Congress -- toward a reform of the international monetary system to make it more flexible and adaptive to changing economic circumstances. As a result a wide measure of international agreement has been achieved. One important part of that agreement is that the international monetary role of gold should be reduced, that we should move toward the situation internationally in which gold is accorded a legal status no different than that of other commodities. It is consistent with that understanding that our government no longer purchases or sells gold for monetary purposes. Yet if we were now to decide to prolong the restrictions on gold ownership because of international monetary considerations, we would seriously undermine the credibility of our position -- and of our negotiators -- in the continuing discussions with the finance ministers of the other nations. Conversely, if we proceed with the removal of the restrictions, indicating conviction on the desirability of further reducing the role of gold, we shall be in an improved position to negotiate further steps for improvement of international financial arrangements both among nations and within the International Monetary Fund.

All these considerations make it clear to me that the restriction on individual freedom which would result from continuation of the ban on private gold ownership no longer meets the test of clear-cut and compelling justification. With gold having no monetary function in our domestic economy, and with a reduced and declining role in the international sphere, the original reasons for this restriction on individual freedom seem to me to have disappeared. And I do not see an adequate new justification for the restriction. Domestic financial markets are not now in a state of high tension. Interest rates have eased, and internationally our exchange markets, operating on a lightly managed floating basis, are serving us well in a period of rapid economic change. Old fashioned exchange rate crises have been avoided, and the governments of the major countries are clearly attempting to approach their common problem in a cooperative spirit. These are not circumstances which justify us in asking our citizens to accept continued restriction on their freedom.

In your second question you have asked whether P.L. 93-373 precludes Government actions to prohibit questionable or dangerous trading techniques.

Most gold sales will probably take place through banks, brokerage houses, or other financial institutions which function under many forms of government regulation. Consequently, there will undoubtedly be less of a problem of consumer relations than might otherwise be the case.

In any event, Federal and State regulatory agencies will be able with respect to gold to exercise their proper role in protecting investors. Public Law 93-373 does not allow a government <u>prohibition</u> on purchasing, holding or otherwise dealing in gold. Congress could not, however, have intended

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this language to limit the authority to apply to gold regulations applicable to all commodities. The regulatory agencies interpret P.L. 93-373 as allowing full authority to regulate dealings in gold under generally applicable regulatory statutes.

Proceeding on the basis of existing statutes, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Reserve Board, the Federal Trade Commission the Justice Department, the Postal Inspection Service and the Securities and Exchange Commission fully intend, and are prepared, to enforce the laws and regulations which they administer and which are applicable to all commodities, including gold.

Banking in particular is a matter of special concern to this Committee. The banking regulatory agencies have full authority, under the Financial Institutions Supervisory Act of 1966, to issue cease-and-desist orders to halt any unsafe or unsound banking practice with respect to gold. These agencies are now working on, and will issue, guidelines to their member banks on dealing in gold.

Mr. Chairman, you also wished me to comment on so-called "naked options" and other trading techniques. I understand a "naked option" to constitute a trading technique involving a contract, made with a small or no down payment, to purchase a certain quantity of gold in the future, in other words a form of "call contract."

Simple purchases and sales of gold will in many cases not be subject to SEC regulation, but all trading techniques, including options, when they involve investment contracts, such as those for provision of investment advice and management services, will fall within the authority of the SEC. That agency, in cooperation with a number of other regulatory agencies, is preparing a general statement for guidance of investors.

Futures and transactions involving options, margin and leverage contracts in gold bullion and bulk gold coins on commodities exchanges will be regulated, effective April 21, 1975, by the new Commodity Futures Trading Commission. In the interim, commodities markets will continue under self regulation. I understand that commodities markets which plan spot and future trading in gold will apply the same rules to gold as they apply to any other commodity. Thus, the rules for commodity market trading in gold will be the same as for any other commodity and I see no reason to differentiate gold in this respect from other commodities.

Contracts payable alternatively in gold or in an amount of money measured thereby are both against public policy and unenforceable in our courts under the provisions of the Congressional Gold Clause Joint Resolution of 1933. This clause continues to apply after the lifting of restrictions on bullion ownership.

Thus Federal and State regulatory statutes will apply to purchases and sales of gold. Nevertheless, as in the case of investing in any other commodity, investors should "investigate before they buy." This rule should be observed with special care in the first few weeks after December 31 when there may well be temporary shortages of the various types and sizes of gold bullion that investors may wish to purchase.

Your third question, Mr. Chairman, asks what changes, if any, I would recommend in P.L. 93-373.

I would not recommend any changes in this law at this time. I have already pointed out that the Administration believes that it has adequate authority to regulate gold as it does any other commodity.

If you believe that it would be useful to make the scope of P.L. 93-373 more explicit, this could appropriately be done at some later time rather than hastily in the few remaining days of this session of Congress. At the same time, the law could be amended to make clear that it allows the same standby authority for the Government to impose a prohibition on gold imports and exports as we have with respect to other commodities.

You also asked whether new legislation should be considered to allow contracts containing a multiple currency clause. This is a subject that is not directly related to private gold ownership. The Supreme Court, in the late 1930's construed the Gold Clause Joint Resolution, which as I have noted continues in effect, to prohibit enforcement of multiple currency contracts in the United States. Today, such financing devices have become common in international financial markets. For example, bonds are issued and denominated in "Eurcos" which provide for payment in a number of European currencies in an amount measured by an index composed of these currencies. I see no reason why American businessmen should not be able to deal in this kind of instrument. Consideration of a change in the law at the next session of Congress would be desirable.

Your fourth question, Mr. Chairman, asked what general condition would cause me as Secretary of the Treasury to authorize the sale of Treasury-owned gold to private citizens. As you know, the law has for many years empowered the Secretary to make such sales from the Treasury holdings, which now amount to approximately 276 million ounces.

In deciding on this question an important consideration has been the fact that U.S. consumption of gold for industrial, artistic, and dental purposes is already far in excess of U.S. gold production. This year, even while investment in gold bullion has been prohibited to U.S. citizens, there has been an import demand for gold, on the order of $1 billion worth. While it is not possible to predict with any confidence how much additional demand will come forward in 1975 for investment purposes, it is clear that such additional demand would have to be met from additional imports if there were no sales from Treasury stocks. This additional import demand would tend to lower the value of the U.S. dollar relative to other currencies and would thus tend to increase the dollar prices of the goods we import and of the types of production we export. In other words, there would be a clearly adverse effect on our efforts to bring inflation under control.

To avoid this undesirable effect it seems appropriate that the Treasury sell some small amounts from its large stocks. With the concurrence of the President, I have therefore asked the General Services Administration to act on behalf of the Treasury to prepare a public auction of 2 million ounces of gold in 400-ounce bars to be held on Monday, January 6. The GSA will issue the formal invitations to bid in about ten days using procedures comparable to those employed by the GSA in the past when selling silver on behalf of the Treasury.

Consideration will be given at a later date to the amounts and dates on which any additional further sales of gold would be appropriate after the initial sale. Presumably, however, later sales after the initial surge of interest would be for smaller amounts. Bars of the 400-ounce size are the only type available in the requisite amounts for the initial sale. At a later date it may be possible to arrange for sales of smaller-sized bars.

The amount being offered in the inital sale, the 2 million ounces, is not large in relation to our 276 million ounce stockpile. The amount being sold could not in any way threaten the availability of gold needed for military and industrial purposes related to our national security. In fact, such uses are so small that they could be covered many times over by our annual domestic gold production without any reliance on our stockpile supplies.

The proceeds of our gold sales -- over and above the amounts used to redeem at $42 an ounce the gold certificates now held by the Federal Reserve -- will enable the Treasury to reduce its market borrowings thus leaving more funds available for private investment in industry, housing and other activities. The reduction in Treasury borrowing will also tend to offset any disintermediation which might take place through investors withdrawing funds from thrift accounts to make gold purchases. In fact, however, I would not expect much of such disintermediation since I believe most savers put their funds in thrift accounts to have assurance both on the value of their principal and on a reasonable interest income. Neither of these assurances will be available to those who invest in gold.

In planning a small gold sale the Treasury does not have any specific price objective in mind, and I feel strongly that our hands should not be tied to any specific formula determining the amounts to be sold. In my view, the Secretary of the Treasury should be expected to exercise responsible judgment taking into account overall economic conditions and the need to avoid placing undue strains on the international value of the dollar. I hope I can have your support for this policy.

I realize that some have opposed any sale of gold by the Treasury from fear that we would be parting with our national patrimony, from fear that we shall need all the gold we have to support our future international payments position, and from fear that the sale of gold will signify some weakening in our resolve to fight inflation. I believe these fears are unfounded. Firstly, I do not consider that it constitutes parting with national patrimony to transfer a commodity from the U.S. Government to U.S. citizens at a fair market-determined price. Secondly, we are proposing to sell some gold now exactly in order to prevent a weakening of our payments position, but the amount proposed to be sold is very small in relation to our total holdings. There is certainly no intent to throw a large portion of our gold on the market and to obtain in return only the small recompense such flooding of the market would bring.

Finally, I want to assure you that the sale of gold will not signify any weakening of our resolve to control inflation. In fact, an important reason why I support the sale is that it will make some contribution toward reducing inflation.

But while the gold sale will have some anti-inflationary impact, we must not lose sight of the fact that what is really important are the general governmental fiscal and monetary policies that are adopted here and abroad. We are now beginning to see some results of our past efforts. Inflation rates, both here and abroad, are now beginning to moderate. This is generally true in commodity markets, especially in the case of metals. As only one example, the world price of copper has dropped nearly 60 percent from a peak of $1.52 per pound early this year. This indicates to me that success in controlling inflation is both practical and feasible. If we have the foresight and wisdom to restrain our expenditures at home and to meet our international financial problems through effective cooperation -- the kind of cooperation I will speak about next through the proposed financial solidarity agreement -- we can and we will control inflation at home and abroad.

Mr. Chairman, I recognize that there are responsible men who have reached a different conclusion than I have about our proper course with respect to gold. And I realize that there are risks today -- as there would be at any time -- in removing long-standing restrictions. Yet after reflecting on the matter, I must conclude that with respect to gold today there would be greater risks in postponing actions which are clearly in the right direction for the U.S. Government to take.

Proposed Financial Solidarity Agreement

You have suggested that I also comment this morning on the U.S. proposals for a "solidarity fund" among the major industrial countries. Those proposals are described in detail in recent statements by Secretary Kissinger and by me, with which I am sure you are all familiar, and I will simply mention a few of the main points here. I would be happy to answer any questions you may have.

Our proposals for a financial safety net arose out of months of quiet negotiations with our major industrial partners. Our analysis of the forces underlying the energy markets has led us to the conclusion that the present level of oil prices is unjustifiable and that there can be no fundamental solution to the energy crisis without a reduction in the inflated price of oil. For this reason, we have not been attracted to purely financial "recycling" schemes for these would treat only the symptoms and not the root of the problem itself.

Nevertheless, we see the need to provide financial backstopping until the goal of reduced oil prices can be achieved. We believe that the major consuming countries must join together in a creative response to the oil problem, a response which links cooperative energy policies to cooperative financial policies. In this way, we can provide the mutual insurance essential to protect the health of the world economic system, while at the same time we are increasing our energy independence and so laying the foundation for a fruitful dialogue between producers and consumers on the oil price issue.

As you know, we have called for a major new mechanism, established by the major industrial countries in association with the OECD, to provide standby support to any participating country which finds itself in economic trouble after having taken reasonable measures to resolve its difficulties. As we have tried to stress, the facility is not intended to provide free, unlimited or unconditional aid but to serve as a mutual insurance network for countries which might otherwise be compelled to take restrictive action or to reduce economic activity to lower-than-desirable levels -- for their own well-being and the health of an increasingly interdependent world.

Several principles are fundamental to the kind of mechanism we envisage:

First, the financial arrangements would support a concerted energy program, and participation would be linked with a commitment to cooperate in reducing dependence on oil imports.

Second, participants would undertake to pursue responsible adjustment policies and avoid recourse to restrictive trade measures or any other beggar-thy-neighbor policies.

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Third, the facility must be large enough to give confidence to the participants that emergency financing will be available. We have recommended a facility with total commitments by all members in the neighborhood of $25 billion in 1975, with provision for additional resources in subsequent years if and when the need arises.

Fourth, the facility is designed to supplement existing private and public channels of financing, not to replace them. This complex of existing mechanisms has worked well so far this year and we see no reason why it will not continue to do so. But we must allow for a situation in which individual countries find themselves in economic difficult with needed credit either too scarce or too expensive to permit them to maintain open economies at appropriate levels of economic activity.

Fifth, decisions on the provision of financial support should be taken by a weighted vote of participants and should be based on the overall economic position of the borrower, not any single criterion such as oil import bills. Oil deficits have become increasingly indistinguishable from "non-oil deficits" and conventional balance of payments concepts have lost much of their meaning in today's world. Access to the facility should thus be determined on the basis of an informed judgment which considers not only a country's needs but also its resources -- including alternative sources of finance -- its internal and external economic policies, and the effort it is making to reduce its dependence on imported oil.

Finally, whenever support is provided by the facility, we believe it important that all members share the credit risk on the basis of their participation.

We have had initial discussions of this proposal with representatives of the major countries. While we have not sought commitments, others have indicated a strong interest in the proposals and voted unanimously to set up a working group under the Deputies of the Group of Ten. This working group will meet intensively, beginning later this week, to examine the U.S. proposal and a similar one by the Secretary-General of the OECD, with a view to reporting by mid-January.

We have considered that the Exchange Stabilization Fund would provide the best vehicle for U.S. participation in the new facility. We will be discussing this with the Congress intensively over the next few weeks and will seek Congressional authorization for any U.S. participation.

Contributions to Multilateral Development Banks

Now, Mr. Chairman, in response to your request I would like to review briefly pending legislation and negotiations on future participation in multilateral lending institutions.

First, I would like to emphasize the Administration's complete support for H.R. 11666, the Asian Development Bank Bill, which was favorably reported by this Committee and is now ready for Floor action. It has the support of the U.S. business community here and abroad. The Senate passed identical legislation by unanimous consent last August.

This bill authorizes a $362 million subscription, the first since 1965, to the Bank's hard-loan facility. This subscription will restore U.S. voting power to 17 percent, on a parity with Japan, from the 7.5 percent to which it has fallen as a result of other countries going ahead with their planned subscriptions last year.

I must note that this subscription will be paid in three annual installments and over 80 percent, or $290 million, of these hard-loan funds are in the nature of a guarantee involving no budget outlay, and almost all of the remaining $72 million are in the form of non-interest bearing letters of credit that will not be fully drawn down for many years.

A second part of the bill authorizes the final $50 million of a planned $150 million U.S. contribution to the concessional lending facilities of the Bank of which $100 was authorized in March 1972. The U.S. share of the total replenishment has been held down to under 20 percent of the total contributions by all donors and no appropriations will be required until FY 1976 with outlays stretched out over an additional period of time.

The burden-sharing and fiscal features of both parts of this bill are highly beneficial and fiscally responsible. I strongly hope this Congress will complete action on H.R. 11666 before final adjournment.

Second, I am happy to inform this Committee that, after extended discussions, the Inter-American Development Bank and a group of thirteen developed countries in Europe plus Japan, have arrived at a basis for membership in the Inter-American Bank by those countries. This Committee has long urged such membership, and, as I indicated in my recent letter to you, we expect their participation to be helpful in burden-sharing terms, without prejudicing the favorable position in the Bank that the United States now enjoys and will continue to enjoy.

The thirteen countries involved will provide the Bank with $755 million of new resources. Their share of the Bank's voting power will be less than 8 percent with a rule prohibiting a share in excess of this amount. These same rules will also prohibit our share from falling below 34.5 percent of the total voting power.

The prospective nonregional member countries expect to declare their intention to join the Bank on December 17 at a meeting in Madrid, after which they will go to their Parliaments. Because a new class of stock is being created and extensive changes in the Bank's Charter are necessary, we on our part require legislation as well. I want to point out that such legislation involves no money from us, but simply our agreement to the largely technical Charter changes that are needed. I am transmitting to the Committee for its examination documentation on the various aspects of the nonregional membership proposal. Treasury officials will be happy to work closely with you on it, in anticipation of the submission of draft legislation next year.

I should add that, quite apart from the nonregional membership question, there is an urgent need for us to reach agreement with the present members of the Bank on a new replenishment of resources. We have not discussed this issue yet with the other members, and before doing so we will consult with this Committee and the other relevant committees of the Congress, as we promised to do on such matters and have been doing. I think it is important that consideration of a replenishment move forward on a timetable that would permit legislation on it and on nonregional membership to be considered as a package this coming spring.

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December 4, 1974

MEMORANDUM TO EDITORS

The attached Q-&-A materials were presented at 10:30 a.m. today by William E. Simon, Secretary of the Treasury and Chairman of the Economic Policy Board, at an economic briefing for the press. Included are the most relevant questions being asked by 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

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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 <u>still</u> 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 <u>accelerating</u> 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.

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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 <u>for interest charges alone</u> on this debt now amount to $31.5 billion.

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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 <u>the rate of increase</u>.

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 the so-called "uncontrollables" in the Federal budget? In which of these areas is spending increasing the most rapidly?

A: In the past six years, the so-called uncontrollable outlays rose about $90 billion and were nearly $200 billion in 1974--almost 3/4 of the total budget. Nearly $70 billion of the $90 billion increase was in social security and other retirement programs, veterans benefits, and a wide range of health and welfare programs. Interest on the national debt and other fixed commitments accounted for the remainder.

Achieving control over government spending is complicated by the way many Federal programs start on a small scale but then mushroom rapidly. Some examples:

*Food stamps came to $200 million in 1969 but reached nearly $4 billion in 1974--a 20-fold increase in just five years.

*Public assistance programs and social services totalled a little over $3 billion a decade ago but are nearing $20 billion now.

*Total Federal health outlays were $1.7 billion a decade ago but are now over $25 billion.

Incidentially, I consider the word "uncontrollable" a misnomer. We need not and must not accept developments that we recognize are leading us to disaster. Just because Congress has legislated a program doesn't mean it can't be changed.

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Q: What about so-called off-budget items? With these omissions, how can people get a true picture of total spending 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 outside 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: Will we ever again see 6 percent interest rates on loans?

A: It's possible--but not until we achieve a much lower rate of inflation. Today's high interest rates are caused by today's high rate of inflation and the tremendous demands that built up for loans. As we reduce this demand along with the rate of inflation, interest rates will come down.

But we can't reverse that sequence; that is, we cannot cut the inflation rate by driving interest rates down through the process of creating much more money and credit. That would only throw fresh fuel on the inflationary fire. Inflation would speed up and interest rates would be driven still higher.

The only way to get to a 6 percent rate of interest from here is to bring the rate of inflation significantly below 6 percent. We should also recognize that each time we lose a bout with inflation, interest rates are ratchetted higher. In 1960 the bank prime lending rate peaked at 6 percent. In 1969 it reached 8-1/2 percent, and this year the high point was hit at 12 percent.

The current high levels of interest rates reflect the <u>expectation</u> of continued inflation. Because of this inflationary psychology, lenders require and borrowers are willing to pay a premium roughly equivalent to the expected rate of inflation.

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: Doesn't 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: 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.

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Q: What's wrong with government spending new billions, as many are suggesting, to halt the rise in unemployment?

A: Unfortunately, there's no such thing as "free" Federal programs -- any more than there's such a thing as a free lunch. And it's high time public officials leveled with the American people and told them so. If we don't have the courage to raise taxes to pay for new spending programs, then people are forced to pay through the cruelest and most regressive tax of all -- inflation.

If we are going to have programs to cushion economic adjustment, taxpayers must pay for them. If not, if Washington resorts to more economic pump-priming, we face even worse inflation-- which, in turn, will lead to still another economic slump and more unemployment. I sincerely believe that the higher-income people among America's 86.5 million jobholders can and should contribute more to help the 5.5 million unemployed.

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 pressure 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.

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.

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Q: What about proposals for standby wage-price controls?

A: The problem with standby wage-price controls is that their very presence creates an expectation that controls will be imposed at some future time. There is thus a rush by business and labor to raise prices and negotiate large wage increases before the controls are slapped on. Compounding the problem, the resulting rise in wages and prices then provides the seeming justification for imposing controls.

Q: How can high corporate profits be justified in a period of 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: 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: Why should people be concerned about whether business makes a profit or not?

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: What do you mean when you talk about boosting productivity?

A: The term productivity refers to the efficiency of our economy -- the amount of real output that can be produced per worker (and also per unit of capital input).

The importance of increasing productivity is that it helps us achieve two very important national goals: It reduces costs and thus lessens inflationary pressures, and it increases total production and thus improves our standard of living. Indeed, in the long run, increased productivity is the only source of a rising national standard of living.

How can productivity be boosted? By cutting waste on the job and working "smarter" -- and by increasing the quantity and quality of capital equipment available to each worker. This is why I put so much emphasis on the need for more savings and more investment. This country has been lagging much too far behind in total fixed investment. For example, since 1960 U.S. capital formation (including residential) has averaged only about 19% of our total output -- about the same as in the United Kingdom. In the same period, the investment-ratio was 25% for France, 26% for Germany, and 33% for Japan.

If the U.S. is to check inflation, stay competitive and continue to create abundance for its people, we must not only provide greater incentives for saving and investment, but also remove impediments to efficiency throughout the economy. The National Commission on Productivity has been charged with the job of identifying problems in this area and recommending solutions.

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.

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

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FOR RELEASE AT 2:40 P.M., EST
WEDNESDAY, DECEMBER 4, 1974

REMARKS OF ALAN M. ARSHT,
SPECIAL ASSISTANT TO THE DEPUTY SECRETARY OF THE TREASURY,
BEFORE THE NATIONAL ASSOCIATION OF
REGULATORY UTILITY COMMISSIONERS,
SAN DIEGO, CALIFORNIA, DECEMBER 4, 1974

Over the last decade we have received repeated warnings that America and, for that matter, other members of the community of industrialized nations were gliding, like pollyannas, toward a full-blown energy crisis. In retrospect, one common characteristic of these warnings was especially disquieting: the only people who seemed to be concerned were the experts. Regrettably, Federal awareness of the need for an energy policy came too late and these predictions were realized.

Today, America faces a very real energy crisis -- a crisis that threatens not only our potential for economic growth, but our ability to meet our important social and national economic goals -- goals which both policymakers and citizens have accepted as fundamental American rights.

One of the ironies of our domestic energy crisis is that the most imperiled component of our national energy base is the one that most people, until quite recently, have taken entirely for granted -- our electric utilities. While unfortunate, this attitude toward the electric utility industry is understandable in view of its history.

Over the years, the electric utility industry enjoyed consistently stable returns on investment and growth in earnings. Its gently rising costs were absorbed by productivity savings arising from increasing economies of scale. As a result, the industry enjoyed the highest ratings on its securities and a very low cost of capital. The industry's securities, considered almost as safe as Treasury issues, were held by only the most risk-averse investors. It was believed, after all, that any industry which is regulated is guaranteed a return on its investment which would be adequate to finance essentail future expansion. Even state and local political authorities treated the industry kindly, since they could raise their citizens' taxes through the indirect and little-noticed method of raising the utility's property taxes. An industry replete with friends and devoid of adversaries, as this industry was, should have been blessed with a prosperous future.

As everyone in this room knows, the events of the last twelve months have exploded these long-held assumptions.

An incredible combination of primary and secondary factors descended upon the industry simultaneously, making a shambles of the traditional relationship between its revenues and costs. Chief among the villains were double-digit inflation, the surging price of petroleum and coal, and regulatory lag. A second set of adverse influences included high interest rates, power plant siting and construction delays and increasingly costly environmental standards. Every factor cited above except one added substantially to a utility's historical costs of operation. The exception was regulatory lag, which had an equivalent effect since it constrained revenues. Industry profitability and net cash flow have suffered as a result, creating widespread investor disenchantment, securities downgradings, and construction cutbacks. The industry now finds itself in somewhat of a dilemma: it has the obligation to meet furture public demand for services but yet it is unable fo finance the construction of additional generating capacity.

The announced construction cutbacks to date are shocking indeed: in the nine months ending October 1, 1974, the industry had postponed or cancelled 132,000 megawatts of planned expansion. Approximately two-thirds of this amount (89,000 megawatts) is nuclear-based capacity and represents more than half of all capacity additions originally planned as of the beginning of 1974. An even more dramatic aspect of these deferrals is that they amount to more than 2-1/2 times the total nuclear generating capacity currently on line. A nuclear deferral of this magnitude for only one year will force the importation of an additional 850 million barrels of oil -- over 2 million barrels per day -- at an annual cost of about $10 billion. A second harmful effect of these nuclear construction cutbacks may occur if growth in peak demand resumes after this year at its normal trend of 5-7 percent per year. Managements might be forced in that case to substitute fossil-based plants for nuclear plans because of their shorter lead time and lower initial capital cost.

The energy objectives of this nation can ill afford such body blows. Moreover, the added unemployment implied by wholesale construction cutbacks must be avoided, if at all possible. Confronted with this scenario, the Administration decided that Federal leadership was essential if we were to

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have a financially sound utility industry. But this industry, if it is to remain a linchpin of our economy, also requires a regulatory framework fully responsive to today's rapidly changing economic conditions.

Administration officials entered into extensive discussions last summer with regulatory commissioners and industry representatives in an effort to find a solution. The Administration's approach to the problem is guided by three long-range objectives which you should be aware of:

> First, the total costs (including the cost of capital) of producing and supplying electricity should be paid by the user, not the general taxpayer;
>
> Second, the Federal Government should not preempt the regulatory responsibilities of the states;
>
> Third, all Federal actions should be consistent with continued private ownership and management of investor-owned utilities.

Some regulatory commissions, with full knowledge of the impact inflation is having on their utilities, have continued to set totally inadequate rates. Many commissions fortunately, having grasped the gravity of the situation, have responded fully and quickly to requests for rate increases. In recognition of the cash flow squeeze upon their utilities, some regulators have placed at least a part of construction work-in-progress in the rate base. Others are shortening book depreciation lives and normalizing, rather than flowing through, all deferred tax benefits. Furthermore, many commissions are using future test periods, automatic adjustment clauses and other ad hoc rate-setting mechanisms which are essential in a highly inflationary environment. In addition, many commissions have allowed effective rates of return on equity to rise to levels at which new equity capital can be attracted to the utility. Clearly, this rate is different for each utility. A proper rate of return depends on a number of factors such as fixed charge coverage, amount of leverage in the capital structure, recent earnings history and divident yield, among others.

The Administration can and will help state commissions in any way which is consistent with the three general objectives mentioned earlier. But it cannot raise rates; it cannot change obsolete book accounting practices; it cannot recommend new statutes which would accelerate the state regulatory process; it cannot adopt interim and automatic rate-making procedures. Those are action which state commissions, and in some cases, state legislatures must take.

The Administration believes that the industry's financial troubles arise primarily from underpricing of electricity. In a sense, this conclusion is self-evident, for if revenues were at a level which covered all costs and, in addition, provided an adequate return on investment, no utility would be in difficulty. When I speak of "costs," however, I am referring to economic costs, rather than accounting costs, since accounting costs may or may not approximate reality.

This distinction is not a matter of semantics. Persistent double-digit inflation has forced accounts to reconsider the traditional view of depreciation methods and lives. That view held that the original cost of the asset should be spread over its useful life in equal increments (i.e., as with the straight-line method) without regard for replacement cost or the time value of money. It is becoming painfully clear, however, that utilities, as well as other capital intensive industries, must accelerate capital recovery if they are to be able to replace technoligically obsolete or physically worn-out plants. Treasury studies suggest that depreciable lives and methods used for tax purposes approximate actual capital consumption more closely than do book lives and methods. In view of the electric utility industry's declining cash flow as a percentage of its capital requirements, this is a matter which requires your immediate attention. Revising allowances for depreciation on existing plant to allow for inflation effects and reconsidering lives and methods appropriate for new investment would generate sufficient additional internal cash to solve a large part of the utilities' present financial problems.

In addition to underdepreciation, many utilities are forced to flow through, rather than normalize, deferred tax benefits. In view of the unrealism of current book depreciation allowances, persistence in "flowing through" tax benefits deprives utilities of a portion of their internal cash flow, a fact which undermines investor confidence in the quality of reported earnings. Treasury's concern over flow-through accounting is underscored in its proposal to increase the investment tax credit. That proposal conditions the availability of the additional credit upon a form of normalization of any resultant tax benefits.

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We have come to a point in time, however, when we must do more than exchange unsolicited advice about what the other fellow can or should do. The problem is national in scope and any solution will require firm, continuous Federal-state co-operation. I believe the Administration has taken some conspicuously helpful first steps. Aside from the communication benefits of several conferences last summer, we have proposed various pieces of legislation which would either directly or indirectly benefit the utility industry:

First, the Nuclear Plant Licensing Bill, which would streamline the nuclear construction delays now being experienced by the industry. Carrying costs alone from these delays add 15 to 20 percent to the cost of a plant, and must be borne by the ratepayer.

Second, Electric Facilities Siting Act, which would compress the amount of time required to put an electric power plant into operation .

Third, Natural Gas Supply Act, which would stimulate development of new reserves. It would also slow the substitution of electric power for natural gas and ease peak generating demands.

Fourth, three Treasury tax proposals have been adopted by Ways and Means:

(a) Increase investment tax credit from 4 to 7 percent

(b) Normalize the additional credit

(c) Extend five-year rapid amortization for pollution control equipment.

A fourth, which has not been adopted, would have allowed state commissions five years to conform book depreciation lives to tax lives.

Fifth, the Surface Mining Act, which would free the coal and electric utility industries from unreasonable constraints upon the development of coal resources.

Sixth, Clean Air Act Amendments of 1974. While the Clean Fuels Policy has been helpful, there is substantial disagreement currently within the Administration as to whether the costs of the sulphur oxide emission standards outweigh the benefits.

Each of these six bills is mired in Congress awaiting passage -- which brings me to my last point.

Rather than asking for subsidies, credit guarantees or other forms of Federal assistance, state commissions must accept the fact that all forms of energy will cost more in the future than they have in the past. Part of the reason is inflation, which the Administration is trying very hard to bring under control. But the other reason is the universal recognition that petroleum and all available energy alternatives are scarce, non-renewable resources. While prices may not remain at the present level established by OPEC, they will undoubtedly be much higher than in the period preceding 1973.

It is within this framework of reference that utility commissioners must operate. You must set a rate which covers the real cost of electric power, but at the same time, you must do what you can to bring those real costs down. Better rate designs, peak load pricing, management efficiency standards, as well as management incentive programs could help achieve this objective. In contrast to these thoroughly constructive programs, commissioners who opt for understatement of actual depreciation costs merely shift part of the cost of service from current ratepayers to future ratepayers. For it is that second group who will bear the brunt of the next emergency rate increase.

Those utilities whose common stock is selling at deep discounts from book value, or whose fixed charge coverage is at or below its legal floor, or whose earnings are not covering dividends, require immediate and substantial rate relief -- to do otherwise, to permit this situation to drift for much longer, is to invite bankruptcy of these utilities and, even worse, a power-short economy in a very few years. When short-term political benefits from harsh treatment of rate requests are stacked up against the prospect of brownouts, blackouts and economic stagnation, the choice is clear. Those utility regulators whose utilities are in extremis must begin to appreciate that the long-run interests of the consumer in investment, growth and technological progress transcend the short-run preference of keeping rates artificially low.

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There are many issues pending in Washington which vitally concern utilities and utility regulators: scrubbers, secondary air standards, the investment tax credit and power plant siting and licensing, to name a few. Each of these issues has the potential to substantially affect the costs of operation of every electric utility. It is in your interest to take part in the debate, to offer your analysis of the costs and benefits produced by each measure. Without your expert advice, new legislation affecting utilities may be unnecessarily burdensome. However, by working together in a spirit of frank and forthright exchange, we can restore the vitality of one of our most critical resources -- the electric utility industry.

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Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE December 4, 1974 47

U. S. TREASURER FRANCINE NEFF
NAMED NATIONAL DIRECTOR OF
SAVINGS BOND DIVISION

Treasury Secretary William E. Simon today announced the appointment of Mrs. Francine I. Neff, the Treasurer of the United States, as the new National Director of the United States Savings Bond Division. Mr. Jesse L. Adams, Jr., will continue as Deputy National Director.

Since becoming United States Treasurer last June 21, Mrs. Neff has been very active in the Savings Bond Program and has already visited 12 states in behalf of it. Mrs. Neff expressed pleasure at the additional assignment, and pointed out that an estimated $6.8 billion in United States savings bonds will be sold this year -- the highest dollar sales in 29 years. "This is a real tribute to the volunteers and professional men and women in the savings bond program, and I'm delighted to be joining them in an official capacity."

As Treasurer, which is a Presidential appointment, Mrs. Neff's duties include reviewing currency issues and redemptions, signing currency, serving as an assistant to Secretary Simon and Under Secretary for Monetary Affairs Jack F. Bennett, and as a Departmental spokesman. She is also Chairman of the Department's Bicentennial Program.

As National Director of the U. S. Savings Bond Division, Treasury Department, Mrs. Neff will head a staff of 470 employees in Washington, seven regional offices and 46 states. The Director serves as spokesman for the Savings Bond Program and its part in Treasury debt management policies.

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Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE December 5, 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 December 17, 1974, and to mature December 16, 1975 (CUSIP No. 912793 WW2).

The bills will be issued for cash and in exchange for Treasury bills maturing December 17, 1974, outstanding in the amount of $1,802,550,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $1,277,825,000. 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, December 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 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 December 17, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing December 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.

Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE

REMARKS OF THE HONORABLE GERALD L. PARSKY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
SECURITIES INDUSTRY ASSOCIATION CONVENTION
BOCA RATON CLUB, BOCA RATON, FLORIDA
DECEMBER 4, 1974

It is a pleasure to be with you this morning to talk about the Treasury's role in the development of government policy relating to our capital markets. Ever since Bill Simon and I came to the Treasury, we were surprised by the fact that there was no department in the Executive Branch of government that was serving as a focal point for capital markets policy. The real need for this responsibility became evident for many reasons, but I think it takes on paramount importance if you look at one critical problem that we face during the next decade -- and that's the ever increasing demand for capital. The fact of the matter is that our economy will need to generate a very large volume of saving and investment in order to carry out the long-term goals which we, as a nation, have set for ourselves. These goals include the vital development of the world's energy resources, which alone will require anywhere from $500 to $750 billion in capital between now and 1985; the improvement of our housing stock, the cleaning up of our environment, the modernization and expansion of our basic industries, as well as the carrying out of all the conventional capital requirements of our society, including the capital borrowing needs of our Federal, state and local governments.

To achieve the goals that we have set for ourselves as a society, we will have to increase our rate of saving and investment and decrease our rate of consumption. It will not be easy and it will require leadership from the Federal government.

Clearly, our highest priority must be to end the inflation that confronts us today, for this will improve the prospects for profits and therefore also for expanded business savings and investment that our economy so badly needs.

At the same time, ending inflation will help to restore the health of our capital markets. We have heard a great deal about the "crisis" that exists today in our capital markets. Actually, people have continually used the term "crisis" very freely -- too freely at times. We've heard a lot about the "energy crisis," the "international monetary crisis," as well as the "capital markets crisis." In all these areas I believe the time has come for less political rhetoric and more economic understanding of the factors that have contributed to our problems. It is inflation that has been a principal cause of the difficulties in our capital markets, and it is only by exercising the necessary economic and political will to bring this underlying cause under control that we will be able to truly alleviate these problems.

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And the first step must be control of the Federal budget. In recent months, too much of the burden of bringing inflation under control has been borne by the Federal Reserve. It is imperative that fiscal policy join the anti-inflation fight rather than contribute to inflation.

The basic budget objective is often described to be a balanced budget over the cycle: to run deficits in years when there is slack in the economy, and surpluses in years when the economy is overheated. However, over the past 14 years, the United States Government has had one surplus and 13 deficits. The budget has not been balanced over the cycle.

In fact, 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. Whatever the merits of pump priming when business is slack, it is clear that much of the deficit spending of the last decade came at times of high employment and only served to fuel inflation.

Adherence to a policy of balancing the Federal budget over the cycle would provide the necessary fiscal restraint critical to the control of inflation in the years ahead. In addition, such a policy would enlarge the flow of savings available to the private sector for investments, because the Government could reduce its claims on the capital markets.

By reducing the deficit, you will be reducing the need for the Federal government to enter the market for non-capital expenses.

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. As such, we must always realize the importance of a higher level of investment in helping to meet this need. Bill Simon certainly recognizes this, and I think the economic proposals offered by the President in October reflect the need to accelerate the growth of capital investment. For instance, the President recommended an increase to 10 percent in the investment tax credit as well as a restructuring of it. He also 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 the volume of their 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 by this Administration that we must begin to shift far more of our resources into the capital markets.

Recognizing that there is, and will continue to be, an increasing demand for capital world-wide, and feeling that the Federal government has an ongoing responsibility to develop public policy that would address this need, Bill Simon asked me to establish within the Treasury a group which would evolve a coordinated approach to the government's role in the operation of our capital markets. In response, we have established two offices in the Treasury, one called the Office of Financial Resources Policy and the other the Office of Capital Markets Policy. The first office is principally responsible for assessing world-wide capital needs, where potential financial resources may be and what the best ways are to re-channel those resources. This Office is concerned with the effect of capital flows on the private financial institutions and its focus is more international than domestic. The second office is concentrating on the operation of our domestic capital markets.

It will be responsible for conducting inquiries into specific existing or potential problems of the markets. Generally speaking we expect such inquiries to involve four broad areas: (1) the structure of our capital markets, including the roles of the various financial intermediaries as well as those of institutional and individual investors;

(2) the regulation of capital markets, including analysis of the cost and effectiveness of existing regulatory structures; (3) the overall demand for capital market services, including analysis and evaluation of the impact of Federal, state and local government borrowing demands on the markets and their ability to meet projected future demand and (4) the financial problems of selected industries. One overriding concern will be developing policy that will help to revive the flow of capital in the equity market. Obviously, getting inflation under control and restoring public confidence is crucial, but at the same time, we must look for specific measures that will help balance the ratio between debt and equity financing; thus providing the individual investor a better opportunity to participate in the growth potential of our industries.

As part of the development of policy in all these areas, this Office will work closely with the Federal Reserve, the Comptroller of the Currency, the SEC and other regulatory agencies in an effort to evolve an integrated capital markets policy. Further, recognizing that tax policy has a direct bearing on the performance of our capital markets, the Office will work closely with the tax policy staff at the Treasury.

These are just some of the areas that will be addressed. However, in order to have a proper appreciation of what we are trying to do in the capital markets area, you have to appreciate what both offices -- the Office of Financial Resources and

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the Office of Capital Markets Policy -- are doing. These are not offices designed to conduct long-range studies; we have had enough studies. These are offices designed to get policy action. And in that regard, I would emphasize that Bill Simon and I are both personally committed to this important effort. I have learned in my short stay in Washington that the chances of getting anything done are directly related to the willingness on the part of the man at the top to become involved -- and I can say that Bill Simon is, and will continue to be, involved. That's why I think it's so important to understand the whole organization we are creating at Treasury. It starts with the Secretary and includes an Assistant Secretary, a Deputy Assistant Secretary and two Offices. That's a lot of manpower to bring to an effort -- but we feel the issues are that important.

With respect to the other people involved, we are fortunate to have found what I think are highly talented individuals. Bob Gerard, who is here today, will be the Director of the Office of Capital Markets Policy. In looking for a man for this job, I must have interviewed over 50 people, and after careful review I felt that Bob was the most qualified. I hope most of you get a chance to meet him.

To support Bob in this effort, we are putting together a truly professional staff. We have completed this task in the Financial Resources Office and we expect to have 5 to 7 people under Bob's leadership very shortly. Both Bob and I firmly believe that each of our areas of inquiry involves numerous subtle considerations best understood by sophisticated professionals with practical experience in the market place. Accordingly, it is our intention to include on that staff as many highly qualified people from the securities industry as we can find. To help us find these people, I urge you, as I have in the past, to provide us with suggestions as to individuals who meet these standards.

In addition to our professional staff, we also expect to rely from time to time on specialists from private industry and the academic community with specialized knowledge in the areas of concern. Again, I ask your cooperation and assistance when we call upon you for advice and consultation in dealing with these problems.

Central to this whole effort, however, will be the continual interplay between industry and government. Too often governmental policy is made in a vacuum. What we're trying to do is create a focal point for capital market's policy, not for government's sake but for you and for the American people we all serve. We want you to know that there exists in the Treasury a group that wants to hear your concerns -- and they will respond.

We want your views as to what the current problems are, what the future problems are likely to be, and how best to solve them. We want these views formally, if you will, in the form of policy statements of organizations such as this one. But more importantly, we hope that each of you will make a point of communicating informally your own opinions on capital markets related questions directly to us, for it is only a full and candid exposition of the diversity of viewpoints concerning the markets' problems that will provide us with the best basis for developing sound policy.

I hope these remarks provide you with a better understanding of what we are trying to do. It's our way of bringing together government, both the Congress and the Executive Branch, industry and the public in a united effort.

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Focus on America's Foremost Problem

INFLATION, CONTROLS, ENERGY, TAXES:
Remarks on Economic Issues by 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 <u>still</u> 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 <u>accelerating</u> 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 <u>for interest charges alone</u> on this debt now amount to $31.5 billion.

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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 <u>the rate of increase</u>.

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 the so-called "uncontrollables" in the Federal budget? In which of these areas is spending increasing the most rapidly?

A: In the past six years, the so-called uncontrollable outlays rose about $90 billion and were nearly $200 billion in 1974--almost 3/4 of the total budget. Nearly $70 billion of the $90 billion increase was in social security and other retirement programs, veterans benefits, and a wide range of health and welfare programs. Interest on the national debt and other fixed commitments accounted for the remainder.

Achieving control over government spending is complicated by the way many Federal programs start on a small scale but then mushroom rapidly. Some examples:

*Food stamps came to $200 million in 1969 but reached nearly $4 billion in 1974--a 20-fold increase in just five years.

*Public assistance programs and social services totalled a little over $3 billion a decade ago but are nearing $20 billion now.

*Total Federal health outlays were $1.7 billion a decade ago but are now over $25 billion.

Incidentially, I consider the word "uncontrollable" a misnomer. We need not and must not accept developments that we recognize are leading us to disaster. Just because Congress has legislated a program doesn't mean it can't be changed.

Q: What about so-called off-budget items? With these omissions, how can people get a true picture of total spending 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 outside 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: Will we ever again see 6 percent interest rates on loans?

A: It's possible--but not until we achieve a much lower rate of inflation. Today's high interest rates are caused by today's high rate of inflation and the tremendous demands that built up for loans. As we reduce this demand along with the rate of inflation, interest rates will come down.

But we can't reverse that sequence; that is, we cannot cut the inflation rate by driving interest rates down through the process of creating much more money and credit. That would only throw fresh fuel on the inflationary fire. Inflation would speed up and interest rates would be driven still higher.

The only way to get to a 6 percent rate of interest from here is to bring the rate of inflation significantly below 6 percent. We should also recognize that each time we lose a bout with inflation, interest rates are ratchetted higher. In 1960 the bank prime lending rate peaked at 6 percent. In 1969 it reached 8-1/2 percent, and this year the high point was hit at 12 percent.

The current high levels of interest rates reflect the expectation of continued inflation. Because of this inflationary psychology, lenders require and borrowers are willing to pay a premium roughly equivalent to the expected rate of inflation.

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: Doesn't 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: 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's wrong with government spending new billions, as many are suggesting, to halt the rise in unemployment?

A: Unfortunately, there's no such thing as "free" Federal programs -- any more than there's such a thing as a free lunch. And it's high time public officials leveled with the American people and told them so. If we don't have the courage to raise taxes to pay for new spending programs, then people are forced to pay through the cruelest and most regressive tax of all -- inflation.

If we are going to have programs to cushion economic adjustment, taxpayers must pay for them. If not, if Washington resorts to more economic pump-priming, we face even worse inflation-- which, in turn, will lead to still another economic slump and more unemployment. I sincerely believe that the higher-income people among America's 86.5 million jobholders can and should contribute more to help the 5.5 million unemployed.

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 pressure 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.

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.

Q: What about proposals for standby wage-price controls?

A: The problem with standby wage-price controls is that their very presence creates an expectation that controls will be imposed at some future time. There is thus a rush by business and labor to raise prices and negotiate large wage increases before the controls are slapped on. Compounding the problem, the resulting rise in wages and prices then provides the seeming justification for imposing controls.

Q: How can high corporate profits be justified in a period of 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: 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: Why should people be concerned about whether business makes a profit or not?

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: What do you mean when you talk about boosting productivity?

A: The term productivity refers to the efficiency of our economy -- the amount of real output that can be produced per worker (and also per unit of capital input).

The importance of increasing productivity is that it helps us achieve two very important national goals: It reduces costs and thus lessens inflationary pressures, and it increases total production and thus improves our standard of living. Indeed, in the long run, increased productivity is the only source of a rising national standard of living.

How can productivity be boosted? By cutting waste on the job and working "smarter" -- and by increasing the quantity and quality of capital equipment available to each worker. This is why I put so much emphasis on the need for more savings and more investment. This country has been lagging much too far behind in total fixed investment. For example, since 1960 U.S. capital formation (including residential) has averaged only about 19% of our total output -- about the same as in the United Kingdom. In the same period, the investment-ratio was 25% for France, 26% for Germany, and 33% for Japan.

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If the U.S. is to check inflation, stay competitive and continue to create abundance for its people, we must not only provide greater incentives for saving and investment, but also remove impediments to efficiency throughout the economy. The National Commission on Productivity has been charged with the job of identifying problems in this area and recommending solutions.

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 IMMEDIATE RELEASE DECEMBER 6, 1974

TREASURY SECRETARY SIMON NAMES HENRY J. NAVE
SAVINGS BONDS CHAIRMAN FOR PENNSYLVANIA

Henry J. Nave, Chairman of the Board and President, Mack Trucks, Inc., Allentown, Pa., is appointed volunteer State Chairman for the Savings Bonds Program in Pennsylvania by Secretary of the Treasury William E. Simon, effective immediately.

He will head a committee of business, banking, labor, government and media leaders who -- in cooperation with the U. S. Savings Bonds Division -- assist in promoting Bond sales in Pennsylvania. He succeeds Charles S. Krumrine, prominent Philadelphia businessman, who continues his service to the Program as Chairman Emeritus after 18 years as Chairman.

Nave graduated from Temple University in 1936, and immediately joined the Firestone Tire and Rubber Co. as a sales trainee. After holding such positions as Store Manager, Stores' Supervisor and National Service Sales Manager, he left Firestone in 1946 to become President and Coowner of the Acme Supply Co., an automotive parts and Firestone Tire distributorship.

In 1950, he joined the White Motor Co. as Sales Service Manager, later becoming Director of Service. He was appointed President of the White Motor Co. of Canada in 1954, a post he held until 1958, when he returned to the parent company as Executive Vice President, White Truck Division. He subsequently served White as Group Vice President for all truck divisions, President and Chief Operating Officer, and in 1971 became Chief Executive Officer. In January 1972, Nave joined

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Mack Trucks, Inc., as President, and later became Chief Operating Officer. He assumed his present post on August 1, 1974.

Nave is active in many businesses, civic and professional organizations, including -- Director, First Pennsylvania Banking and Trust Co.; Glen-Gary Corp.; UGI Corp.; Trustee, Temple University; President, Minsi Trails Council and Pennsylvania Area Vice President, Boy Scouts of America; Co-Chairman, Fleet Week '74, Society of Automotive Engineers; Chairman, Exhibitor Advisory Council, Dallas '75 Truck Show.

He and his wife, the former Hazel Becker, have three children -- Henry J., Jr., William E., Mrs. Susan Patrick -- and three grandchildren.

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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
December 6, 1974

For information call:
(202) 456-6757

THE COUNCIL ON WAGE AND PRICE STABILITY MEETS

The Council on Wage and Price Stability met this morning to be brought up to date on Council staff activities, meet the newly appointed Assistant Directors and General Counsel and discuss the future actions of the Council staff.

The Council also approved the recommendations contained in the attached Council staff report on Shelf Inventory Repricing practices.

Attachment

CWPS-14

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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
Friday, December 6, 1974

For information call:
(202) 456-6757

STAFF REPORT ON THE SHELF INVENTORY REPRICING HEARING HELD BY THE COUNCIL ON WAGE AND PRICE STABILITY AND THE OFFICE OF CONSUMER AFFAIRS

On November 13, the Council on Wage and Price Stability and the Office of Consumer Affairs held a public hearing on the issue of repricing of shelf inventory in retail stores. This report summarizes the major points made during the hearing and in other information submitted for the record. The report also presents the recommendations of the Council staff and the Office of Consumer Affairs on this issue.

BACKGROUND

The repricing of shelf inventory is a common business practice used when retailers are notified of price increases by suppliers. This practice has received a great deal of recent attention since rising costs in this present period of inflation have caused price changes to occur much more frequently than in the past. As a result, two or more prices may appear on the same item.

Shelf inventory repricing is a major irritant to consumers and has caused widespread dissatisfaction and anger. Both the Council and the Office of Consumer Affairs have received hundreds of letters and telephone calls complaining about the practice. Many other consumers have voiced their objections to the President and their representatives in Congress.

Consumers, not altogether correctly, regard the marking of successively higher prices on a package as prima facie evidence of profiteering not justified by costs. The Council on Wage and Price Stability and the Office of Consumer Affairs (OCA) recognize that policies to eliminate the repricing of shelf inventory deal with symptoms of inflation and not with causes. Nevertheless, it can be valuable to relieve symptoms, while pursuing more fundamental policies to fight inflation.

A number of major food chains have adopted a policy of no upward shelf repricing. Safeway was the first major supermarket chain to do so in July and several others have followed suit in recent months. Many others have not, however. Many bills have been introduced into the Congress to prohibit the repricing of shelf inventory in retail stores. Several local governments have passed ordinances to the same effect, including two very large ones (Nassau County, New York, and Dade County, Florida).

The Council and OCA held the public hearing on November 13 to investigate the benefits of adopting such a policy and the reasons why it has not been adopted more widely. Witnesses were heard from retail food and retail hardware industries, consumer organizations and local governments (see attached witness list). All three of the retail food chains that testified have adopted a policy of not repricing shelf inventory. However, the testimony presented was balanced in that both the pros and cons of adopting a no repricing policy were discussed fully.

MAJOR FINDINGS

1. There was a general consensus that the practice of repricing shelf inventory is a major consumer irritant and takes it toll psychologically. Consumers do not understand the economics of the practice and view it as a way to reap unfair, easy profits at their expense. Reasonably so, a consumer feels personally abused wheh he or she is forced to buy an item that has been repriced, particularly when the different prices are stamped side by side or on top of each other. The firms which have adopted a no repricing policy have done so in response to consumer complaints.

2. There are a number of benefits which can be derived from adopting a no repricing policy, as reported by the various witnesses.

- Consumer reaction to this policy where it has been implemented has been very strong and favorable.
- Shelf stocks of merchandise will be fresher. Under the no repricing policy, retail stores must rotate merchandise more frequently so that the older, lower-priced product is moved to the front of the shelf.
- Net savings of labor can be realized from this policy. Two of the three retail food chains (Acme and Finast) reported that the labor saved in not remarking prices of merchandise already on the shelves exceeds the extra labor used for the more frequent rotation of shelf stock.
- Consumers are alerted when a price is increased and can buy additional quantities at the lower price.

3. At the same time, there are a number of disadvantages of a no repricing policy which were cited at the hearing.
   - Adoption of the policy caused labor and operational problems in achieving full shelf stocking and proper product rotation.
   - Problems were also encountered in maintaining accurate retail pricing. Under a no repricing policy, there may be two or more different prices on the same items stocked on the shelves, and verification is often necessary to determine the correct price at checkout counters.
   - Other problems have been encountered with maintaining unit pricing and with pre-priced products delivered directly to retail stores by suppliers.
   - Some inventory appreciation for shelf stock is lost, which reduces revenues. One retail food chain (Pathmark) reported that the adoption of the no repricing policy reduced revenues by 0.3% of sales, which represented more than one-half of the firm's rate of net return realized in 1973.
4. Evidence was presented that policies against repricing would be impractical for retail stores such as hardware stores whose inventory turnover is much lower than that of large food stores. In this connection, the selling price of merchandise reflects more than costs of goods purchased.

It also reflects outlays for wages, rents, taxes, utilities and interest, all of which can be subject to substantial increases during the shelf life of low turnover durable merchandise.

5. Serious doubt was expressed that there are any real savings to consumers under a no repricing policy. The revenues lost from not repricing shelf inventory will be made up by other changes in retail pricing policies in order to maintain normal gross margins. However, to the extent that labor savings are realized, some permanent reduction in prices can result.

6. Representatives of food retailers, consumer organizations, and one representative of a large city government cautioned that present policies against repricing should still be regarded as experimental. There has not been enough experience to produce firm evidence on cost savings and consumer response. Certain problems require further work, such as the best way to display multiple unit prices on shelves.

7. The majority of witnesses recommended against the adoption of Federal or local legislation. They believed that voluntary action by retailers in response to consumer pressure is the best approach. Federal or local legislation could create inequities among retailers, endanger the use of unit pricing and cause severe administrative problems with very minimal savings, if any, to the consumer.

POSSIBLE ALTERNATIVE SOLUTIONS

Recently, food chains such as A&P, Kroger and Giant, who have continued to reprice shelf inventory, have announced actions that appear to be offered as alternative solutions to the shelf repricing problem. A key element in the A&P action is an early warning system for price increases whereby shoppers are informed through a weekly list or shelf tags that the prices of certain items are due to go up. This will enable the consumer to buy additional quantities at the old price. While repricing of shelf inventory can still occur with this alternative policy, the consumer does know the increase is coming and this knowledge could reduce the irritating impact of purchasing a repriced item. A&P has been joined by Kroger and Giant in freezing prices of certain non-perishable items, including house brands, which also allows the shopper to know with certainty that he or she may purchase these items at a stable price for a specified period of time.

RECOMMENDATIONS

1. Since the bulk of the evidence suggests that policies against the repricing of shelf inventory in large food stores reduce consumer irritation, lower labor costs, and promote the proper rotation of stock, we strongly urge those food chains that have not already done so to adopt policies against repricing or to adopt alternative policies to accomplish the same effect.

2. Since policies against repricing are still in an experimental phase, we do not advocate the passage of Federal legislation or of new local ordinances to make such policies mandatory. Wider adoption of these policies or alternative policies on a voluntary basis would make such legislation unnecessary. Where sweeping local ordinances already exist, we recommend that they be revised to exclude branches of retailing with low turnover of inventory.

Attachment

EXECUTIVE OFFICE OF THE PRESIDENT

COUNCIL ON WAGE AND PRICE STABILITY

726 JACKSON PLACE, N.W.

WASHINGTON, D.C. 20506

ATTACHMENT 1

WITNESS LIST FOR HEARING ON SHELF INVENTORY REPRICING PRACTICES

John Whitney
President, Pathmark Stores

Ellen Zawel
President, National Consumers Congress

Elinor Guggenheimer
Commissioner, Department of Consumer Affairs
New York City, New York

Peter McGoldrick
President, Acme Markets

Alan Dimond
Assistant County Attorney
Dade County, Florida

Milton Segel
Vice President, First National Stores Inc.

Sheldon I. London
Director, Government Relations
National Retail Hardware Association

Karen Wouters
Publisher, Grocery Guide and Consumer
Affairs Committee, Americans for
Democratic Action

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NEWS

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REMARKS OF THE HONORABLE FREDERIC W. HICKMAN
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
BEFORE THE
DIVISION OF FEDERAL TAXATION
OF THE
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
PALM BEACH, FLORIDA
MONDAY, DECEMBER 9, 1974

I have two topics to discuss with you today. Both relate to the package of tax proposals which the President advanced in October, the so-called "inflation tax package."

First, I want to address the question, "What is the "inflation" problem and why are the October tax proposals relevant to it? There is an extraordinary lack of public understanding of the economic factors underlying our current inflation.

Second, I want to discuss the proposed changes in the investment credit. Many members of the business community have reacted to the proposals without enthusiasm, with the attitude of "How could the Treasury come up with such an unlovable child?" I will try to explain why the proposals are sound and more lovable than I suspect they seem to many of you.

Inflation

We have had inflation with us in some degree for a number of years. Many people thought we could learn to live with a modest amount of inflation. But inflation is like interest--it is very apt to compound, and to grow increasingly larger as time goes on. At present, inflation is running at a totally unacceptable rate. In the four quarters last ended, the Consumer Price Index rose by 12.1 percent.

There are two basic reasons for the virulence of our present inflation.

The first reason is the enormous amount of government borrowing we have had in recent years. In the last 15 years, we have had government deficits in 13. During that period, better than 5 percent of all federal government expenditures were deficit expenditures--that is, they were not covered by tax revenues and had to be paid for by

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borrowing. In addition, there has been an extraordinary increase in so-called "off-budget" borrowing--which is private borrowing under governmental programs of various sorts. In any modern monetary system, the almost inevitable result of major governmental borrowing is the creation of additional money. Without trying to explain the technical way in which that comes about, I will simply observe that when the government increases its borrowing, the most likely result is that the Federal Reserve and the banking system create new money. Governmental deficits are important not primarily for themselves, but because of what they do to the money supply. If the stock of money in the United States increases substantially faster than our national output of goods and services, we get what is popularly described as "too much money chasing too few goods." That is exactly what has happened, and too much money is exactly what we have had.

The second reason for today's high inflation rate is a combination of individual market factors. In the last year and a half, weather changes around the world, together with the OPEC oil cartel, have subjected us to abrupt and major changes in the prices of food and oil--two classes of goods that are very large and very important in our overall economy.

In addition, during the last three years, the prices paid for <u>all</u> our imports increased because of two major devaluations of the dollar. The devaluations were sudden corrections in exchange rates and they remedied pent up imbalances that had been accumulating over a number of years. The international monetary system of fixed exchange rates--the old, pre-Smithsonian system--was, in effect, a system of international price controls for money. Like <u>any</u> system of price controls, it prevented the market from operating gradually with a continuous series of minor adjustments. It did not <u>eliminate</u> the underlying market forces. It simply dammed them up. When the dam finally broke and the inevitable adjustments came, the jolt was large and the dislocations were major and hard for our system to digest.

In the oil and devaluation cases, a further aspect was that the price increases caused a significant portion of our national output to be diverted to foreign claimants--so that there was less available in the normal way to increase the real incomes of our own citizens. In the case of oil that's obvious. If the Arabs charge more, they get more and we get less.

In the case of devaluation, the result is less obvious to the layman. Let's take a German, for example. If the dollar is devalued, the marks in his pocket translate into more dollars. He can buy more <u>dollars</u> worth of goods with the same amount of <u>marks</u>. So Germans <u>can</u>, and do, buy more of our wheat, our corn <u>and</u> of our other products. The other side of the coin is that it takes more dollars

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for Americans to buy marks with which to buy Volkswagens. So we get less from Germany. The net is that as a nation, Germany gets more of our goods, and we get less of theirs in exchange.

The combination of all these factors--the weather, the OPEC cartel and devaluation--all helped set off a chain reaction in the United States, as each group within our economy sought to regain its position at the expense of others. We now have in progress a wage-price spiral in which it is impossible for all groups to catch up with each other. Our job is to wind down that spiral without throwing the economy into a tailspin.

There are differences in views and emphasis--as always--among economists and policymakers. But I think there is general agreement on the relevance of the factors that I've outlined. Economists don't agree on what we should do, but they do pretty much agree on how we got into the mess we're in. I'd like to read you an excerpt to illustrate that this much of the analysis is a nonpartisan affair. It is an excerpt from the recent statement of Arthur Okun, Chairman of the Council of Economic Advisors under President Johnson. Speaking to the Joint Economic Committee in October, Okun said:

> "Accelerated wage increases are no cure because the losses suffered by workers are in the pockets of farmers (by acts of nature) and of foreign and domestic oil producers, and not in those of most U.S. employers, whose profits have been rather modest. Consequently, more rapid wage increases will be passed on to the consumer in the form of still more price increases. Workers as a group will be no better off. This process of "incomes inflation"--the understandable effort to restore the real incomes of working Americans--is bound to be self-defeating. Apart from food, this price-wage-price spiral is the main inflationary force for 1975."

What then must we do to get inflation under control? First, and fundamentally, we must stop creating money faster than goods and services are expected to increase. That means that we must hold government deficits to the very minimum possible, and that we must hold in careful check the other avenues of monetary expansion.

That process of monetary restraint has been going on for some months. It was a conscious policy decision by the Administration and the Federal Reserve, and it is the basic tool being used to bring inflation under control--although few members of the public understand how it works or that it is happening.

Monetary restraint is an absolutely fundamental and unavoidable requirement if we are to lick inflation, but it is strong medicine and it has uncomfortable side effects. When we hold down the supply of money, the law of supply and demand operates just as it does every where else. In fact, it operates more completely in the case of money than in many other cases because the money market is one of the most freely competitive markets in our economy. So when we hold down the money supply, without also holding down demand, the price of money--which is the interest rate--is bound to rise. That's unfortunate but it's also unavoidable. Congress can enact any law it pleases, but no law of Congress can rescind the law of supply and demand. When it tries, it usually just makes matters worse. A considerable part of the economic discomfort now flowing from high interest rates can be traced to laws which divert (but do not eliminate) normal market forces and cause them to operate in unnatural ways. A major reason why high interest rates have had such a severe impact on the housing industry is that we had government regulations that tried to minimize the impact of normal market forces on savings and loan institutions and homeowners. In today's economic climate, those laws tend to prevent S&Ls and homeowners from being competitive at all. There are structural deficiencies in our private financial system which produce this result. They are longstanding and zealously guarded by some vested interests. They produce undesirable economic dislocations every few years. A new Financial Institutions Act has been proposed which would deal with the problem by making institutions more competitive. It has been pending since the beginning of this Congress, but has not yet been acted on.

As we undertake a policy of controlling our money supply in the midst of a wage-price spiral, dislocations and readjustments will occur. They have to work their way through the economy. There is no way that we can wish away this process.

Maybe it will help you to understand the problem if you think of our national output as a pie, to be divided among our population. It is a pie which never grows very fast, and it isn't growing at all right now, partly because of inflation dislocations. Furthermore, the explosion in prices of foreign oil that we import and the two devaluations mean that foreigners have taken a larger slice of our pie. The result is, as Dr. Okun observes, that it is simply not possible for everybody to catch up with everybody else. The effort of any group to get a larger slice of pie only leaves smaller slices for others. Nonetheless, we are clearly entering a period during which groups will be jockeying over the relative size of their slices. As some slices get smaller--at least temporarily--plans must be changed. Spending will be postponed or reduced by some, increased by others. Plans geared to constantly increasing slices will be pared down. Unemployment and excess capacity will appear in some areas as incomes are redistributed. These developments are not enjoyable, but neither is inflation. They are, in any event, unavoidable developments and a lesser evil than inflation. The only satisfactory way to deal with them is to let them work out in the market place.

Many people are clamoring for political solutions. Some believe that controls will solve the problem, by preventing selected groups from reaching for a larger slice of the no-larger pie. But all prior experience suggests that controls will not do the job. Just as they did in the case of fixed exchange rates, controls simply dam up underlying market forces, only to have them released in more virulent form at a later time.

Another politically tempting way to deal with the dislocations described is to let the money supply increase. That gives the pie the false appearance of being larger. The dislocations that are politically troublesome are caused because when one group gets a higher price for its labor or goods and thus a larger slice, the pie which remains for others is reduced. If the others were willing to take a slightly lesser slice and lowered the prices they charge for their labor or goods, at least there would be enough to go around. But human nature being what it is, there is almost never any group willing to do that voluntarily. Each group insists on the same or higher prices. The result is that until the process is worked out in the market there is not enough to go around. As some slices increase and others refuse to let theirs decrease, somebody is squeezed out. Unemployment results and some get nothing at all.

Under those circumstances there is great political pressure to let the supply of money increase as each group takes a larger slice. In that way the remaining slices, expressed in dollars, need be no smaller and everyone can postpone the necessity of coming to terms with the underlying problem that everyone can't get a larger piece of the pie unless the pie gets larger--which it isn't.

The trouble with this approach is that it is the classic recipe for rampant inflation. If we permit the number of dollars to increase more rapidly than goods and services are increasing, prices will simply rise accordingly. The remaining slices, which appear to remain the same because expressed in dollars, will nonetheless be smaller because inflation has taken part away.

On the other hand, if we hold monetary expansion down too tightly, the necessary adjustments become more severe and may be hard to digest. Thus, as with most hard decisions, it is a question of balance and judgment. We must permit some monetary expansion but not too much. The aim is to wind the wage-price spiral down slowly without wrenching dislocations. That means there will be inflation, but hopefully in progressively lesser amounts over a period of several years. But it is critical that we stick with it. As we live through this period of readjustment, there will inevitably be greater unemployment and more slack in the economy than we would like. That is the nature of the readjustment. We can eliminate the side effects only by stopping the medication. If we do not have the political will to persevere, and if we throw monetary and fiscal restraint to the winds, we shall return almost immediately to a more virulent wage-price spiral.

That is the background in which the President's October tax proposals were advanced. While the disease we are trying to control is ravaging 213 million Americans, the unfortunate side effects of the medication are concentrated on a relative few of our citizens. To deal with that, the nontax portions of the President's package included additional relief for unemployed persons and for the housing industry. The principal purpose of the individual surtax proposals is to raise the revenues required to provide that relief. The individual surtax is the means by which the more fortunate majority of us are asked to contribute a small amount each to help those who bear the burden of the cure for inflation. This in good conscience needs to be done, and only if we do it are we likely to resist popular pressures to abandon the medicine.

The purpose of the surtax on corporations is to finance--for one year--the additional investment incentives required to achieve the increased supply of goods and services that will help hold prices down.

The Proposed Surcharge on Individuals

There is much misunderstanding about the individual surcharge proposal. As most of you tax practitioners are well aware, it is a highly progressive tax. It collects nothing at all from low bracket taxpayers, a little bit from middle income taxpayers, and much more from high bracket taxpayers.

We know from our mail and from Congressional comments that a great many people have erroneously concluded that the surcharge would be either 5 percent of all of a taxpayer's income in excess of the $15,000 or $7,500 threshold levels. While we were surprised that people came to these erroneous conclusions, we were not surprised that persons who misconstrued the proposal in this fashion would object to it. As most of you know, the 5 percent would apply not to income but to tax, and only to that part of the taxpayer's regular tax liability attributable to the taxpayer's income above the $15,000 and $7,500 level.

We are very much aware that most families and single persons with incomes above $15,000 and $7,500 are not wealthy by any stretch of the imagination. But the surcharge would not collect much from most of them either. And the fact remains that the taxpayers who will be affected by the individual surcharge are the most economically fortunate persons in our country. They are the top 30 percent of all taxpayers. They are better off than 70 percent of all the taxpayers.

Although the impact of the proposed surcharge on those earnings between $7,500 and $25,000 is slight, we believe it is important that the cost of fighting inflation and the burden of relieving the hardships of those less fortunate be borne broadly. While those who make $20,000 or $25,000 are not wealthy, it must honestly be admitted that the impact of the tax on these families is also small. Nonetheless, they should also help in the fight against inflation. Fighting inflation is everyone's problem. So long as the burden of the fight is reasonably apportioned to ability to pay and so long as the burden is lightest on the least affluent, we believe a broad sharing of the cost is far preferable to narrowly selective remedies.

Investment Incentives

In addition to the surtaxes, the inflation tax package contains two provisions designed to increase and facilitate capital investment. The purpose of those proposals is to increase our level of productivity and to increase our supplies of goods. As supplies and productivity go up prices can come down--or at least stop rising.

The first of these provisions relates to the investment credit and the second relates to a new and limited kind of preferred stock which should provide greater flexibility in raising additional equity capital. The investment credit proposal is by far the more significant of the two, and I would like to devote the remainder of my time to it.

The Investment Process

Before I move to details of the proposal, let me remind you of some basic facts about the investment process.

Investment is what people put aside now, in order to make things better in the future. Before they can invest, people must save. If they spend their entire incomes on wine, women and song, there is nothing left to invest. The rate of savings in our country is in fact substantially less than in most other industrial nations--and it is less by a significant margin. I find it disturbing, myself, to note that we stand at the bottom of the ladder with England--hardly a comforting partner.

If we increase investment it means a higher rate of economic growth, greater future prosperity, more jobs, and greater output per capita for an expanding population. It provides benefits for everyone. There are a great many different kinds of investment, and the majority of our investment is not eligible for the investment credit. In terms of the benefits it produces, education is possibly the most important kind of investment we have, even though it does not turn up on any balance sheets or get any tax credits. Even consumer durables are a kind of investment. A refrigerator, for example, may provide major future economic benefits by reducing the number of trips to the store, eliminating spoilage and permitting food purchases to be made at times when prices are most advantageous.

The Investment Credit--In General

The assets eligible for the investment credit constitute a relatively narrow class of investment and I have to say to you that it is not necessarily better or more productive than other classes of investment. The genius of our free market system is that hundreds of millions of individuals register their relative preferences through the pricing system and the investments that are made are those that best respond to all of those individual demands.

While no kind of investment is inherently better than another, it is very clear that our income tax system--or any income tax system--is heavily biased against investments which produce financial returns that constitute taxable income. It is easy to see why that is true by supposing that you have $5,000, and the question is whether to spend it for a vacation or to save it and buy a bond. In weighing the vacation alternative you would not take income taxes into account, but in weighing the bond alternative you would have to take into account the fact that some large percentage of the interest income on the bond would go to the government in the form of income taxes. That is not necessarily improper, but it does mean that the existence of the income tax system tilts the scale very significantly when people are deciding whether to save or consume.

For a further reason, which is too technical to explain in a speech, the income tax system is also much more biased against investments in long-lived assets than in short-lived assets.

The justification for the investment credit is that it lessens in some degree those biases, and by lessening the bias it helps to achieve more investment--at least more investment in a certain kind of asset.

The next question which economists must ask is whether the investment credit achieves more total investment or whether it just reallocates the investments that would be made anyway, by making investments in qualified assets more attractive than investments in other assets. The answer to that question depends upon whether the investment credit causes an increase in "savings"--because we keep coming back to the proposition that there is nothing left to invest if we have consumed it. We have to save before we can invest.

A great deal of saving--probably most of it--is business saving, in the sense that it consists of money which businesses set aside out of their profits for new investment. The investment credit tends, in the first instance, to increase that business savings because it reduces taxes and thus increases after-tax profits. But you can't stop there. You must consider a number of other factors also. For example:

- If a business has more after-tax profits, will it in fact save it or will it pay more out to shareholders, owners or employees?

- To the extent that it does pay increased profits out to shareholders, owners and employees, what will they do with it? Will they spend it or save it?

- If competitive businesses all have more after-tax income, that will in due course tend to drive their prices down, and if that happens they will have less after-tax profits, after all.

- If businesses do succeed in permanently increasing their after-tax income, will that fact be an inducement to more saving? Will it cause more individuals to save in order to participate in higher rates of return on investment? That is a little like asking whether, if savings accounts interest rates go from 5 to 6 percent, more people will put money aside because the reward for saving is somewhat greater.

A final and overwhelmingly important consideration is, what does the government do about the revenue it loses on account of the investment credit? If the lesser revenues cause the government to run a bigger deficit, then the government must borrow the money to finance the deficit and to the extent it does, it uses up savings which would be available for business. So what appears to be an increase in savings due to larger corporate earnings may in fact be offset by government demands on the capital markets elsewhere, with the result that there is a wash.

On the other hand, if the government offsets the revenue loss from the credit by additional taxes, then there is likely to be some increase in the total amount of savings. Additional taxes take money away from taxpayers, many of whom would have spent it. In that sense, the credit is a kind of forced savings in which revenues extracted from taxpayers are used to finance investment. But even that may not cause a net increase in savings, because the increased taxes may take away from taxpayers money which they would have saved themselves. To that extent we won't get more savings, we will simply get savings in different amounts by different savers.

Thus, you have to look at the whole system as a closed loop. You must consider not only how the individual reacts to a reduction in his taxes because of the credit, but you must consider also how the government responds to those changes in tax collections. It is all very much more complex than people--even businessmen and accountants--commonly suppose. Economists studying the problem have not always agreed, but, in general, it does appear that the existing credit significantly increases the total amount of investment. Our own economic study at the Treasury indicates that for each 1 percent that the credit reduces the cost of investment in qualified assets, there is an equal increase of about 1 percent in the amount of those assets. Our studies suggest that capital equipment expenditures for 1974 will be about $5 billion higher than they would have been without the credit.

History has demonstrated that the credit is, in fact, a quick and potent investment incentive, although its effectiveness has significantly diminished by its unpredictability. It became effective about the third quarter of 1967, went off again in April, 1969, and came back in mid-1971 in its present form.

In 1971, when the credit was last re-enacted, the country was in a period of high unemployment and business stagnation, which appears to have been due in part to the sizeable increase in

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business tax burdens under the Revenue Act of 1969. Following the re-enactment of the credit in 1971, we experienced an increase in investment of 9 percent in 1972 and 13 percent in 1973, an increase in industrial production of 19 percent over the 1972-73 period and a significant decline in unemployment.

All this is not to say that the credit was the sole cause of those developments. Other factors, such as governmental fiscal policy, were also powerful influences. Nonetheless, we are satisfied on both theoretical and empirical grounds that the credit is very effective.

A More Liberal Credit in Exchange for Higher Rates: An Undesirable Trade-Off

A number of legislators and amateur economists have suggested that we would be better off if we increased the corporate tax rate and used the proceeds to increase the investment credit. They propose a permanent trade-off of higher rates for a more liberal credit.

There are three reasons why that is not a good trade-off:

- The investment credit is a cash benefit intended to reduce the cost of capital investment. If it is simply offset by other tax increases, the result is a wash.
- Most business investment is held in corporate form and the corporate rate has a major impact on the cost of all kinds of capital investment. However, the investment covered by the investment credit accounts for less than 30 percent of our capital stock. Thus, the advantages of the credit vary enormously from industry to industry. Increases and decreases in the corporate rate have a much more neutral impact than increases or decreases in the investment credit, and, for that reason, are, in general, more desirable. The trade-off proposed would be very undesirable for many industries and companies.
- Twenty percent of the present investment credit goes to individuals. So a credit of $1, offset by a credit tax increase of $1, would result in a 20 cents loss to corporations.

Benefits from Investment Tax Credit Proposal: In General

Let me turn now to the specific investment credit proposals.

The proposal would change the investment credit in four ways that are favorable to taxpayers and in one way that is not. From the taxpayer's point of view, the pluses are the increase in the rate from 7 percent to 10 percent, the elimination of the income limitation, the elimination of the limitation on short-lived property, and the elimination of the discrimination against public utility property. The minus is that taxpayers would no longer be permitted to take depreciation deductions on that part of the asset cost reimbursed by the credit. Predictably, taxpayers are pleased with the pluses but disappointed by the minus.

In the aggregate, the changes will produce a substantial tax benefit to business. The 1975 loss from the present credit is $5.7 billion. The proposal is estimated to lose an additional $2.7 billion in the first year. That is an increase of nearly 50 percent. Somebody will be getting those benefits.

A one sentence summary of the proposed restructuring is that it represents a new way of dividing up the benefit pie. However, the pie is significantly larger. The aim was to divide the pie more fairly and efficiently. Some will get quite a bit more. Some will be about even. But we tried to hold to an absolute minimum the number that would get less.

The proposed changes are designed to produce an investment credit that will help all businesses equally. Since the existing credit doesn't do that, the changes will help different businesses in different degrees. The businesses that will benefit most are those for which the present credit works unfairly--including, particularly, small businesses, growing businesses, businesses in financial difficulty and utilities. The companies that get the greatest benefit from the existing credit will get the least benefit from the proposal, but they will continue to enjoy all or substantially all of the advantages provided by the present credit.

The Disadvantage of Unneutrality

The present system says to the taxpayer, in effect, "If you invest $93 in certain kinds of assets, the government will put up an additional $7, and will, furthermore, let you assume for depreciation purposes that you actually spent the entire $100 yourself." But then the present credit structure goes on to impose a series of limitations, and the practical result of those limitations is that the government puts up the $7 in only part of the cases. In the others, it puts up different amounts than $7 or nothing at all. By operating in this unneutral and erratic fashion, the present credit is not only unfair as between taxpayers, but it induces inefficiency and impairs productivity.

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We believe that a free market is the best way to channel investment where it will be most efficient--where it will produce the most with the least cost. Sophisticated investment is made on the basis of capital budgeting arithmetic that you are all familiar with. It measures the differences between expected revenues and expected costs, with allowance being made for the difference in timing. Businesses select those investment opportunities that are most productive--those where the revenues exceed the costs by the greatest margin.

The investment credit figures prominently in that arithmetic. It reduces amounts to be expended. If the credit is neutral and provides the same benefit for everybody, the arithmetic will be more favorable to the investor in all cases, but the relative desirability of the alternatives will stay the same. Investments which on their merits are most productive will still be the most profitable, and the most productive investment opportunities will be selected. But if the credit operates in an unneutral and erratic fashion, investments which are more productive on the merits will appear less profitable because they get less credit, and vice-versa. When that happens, there is a net loss in the efficiency and productivity of our economy and we are all worse off. Maximum productivity is especially important today because it is the best safety cushion we have against inflation and we need every ounce of it we can get.

Unneutrality in the Basis Provisions

The first kind of unneutrality is the unneutrality in the basis provisions. The absence of a basis adjustment is a source of significant unneutrality, for reasons I shall explain in a minute.

There is no conceptual justification for permitting a taxpayer to recover through depreciation deductions, costs which it does not in fact incur. When the credit was originally enacted in 1962, the law provided that the cost basis would be only the $93. That provision, however, gave rise to great complexity when it was combined with other features of the present credit. Because of the "income limitation" and the recapture rules, taxpayers could never be sure just how much credit they would ultimately get or when they would get it. But if they weren't going to get it then they shouldn't be required to reduce basis, and elaborate provisions were constructed to deal with that contingency. Partly because of the complexity created and partly because taxpayers simply wanted more, the basis adjustment provisions were retroactively repealed in 1964. By restructuring the credit as we propose, it will be possible to reinstate the basis adjustment and at the same time avoid the kinds of complexity previously encountered.

You can best see the unneutrality in the present credit if you think of the credit as conferring two benefits: a price reduction of \$7 and an additional depreciation deduction in the same amount to be taken over future years. Time is money, and the value of the depreciation deduction depends upon when the deductions can be taken, and thus upon the "depreciable life" of the asset. A \$7 deduction which can be used this year is worth much more than a \$7 deduction which must be used in installments over the next 10 or 20 years. Thus, the total value of the credit exceeds the nominal rate and varies significantly, depending upon whether you have assets with long lives or assets with short lives. Translated into percentage terms, the effective price reduction for assets of different lives (using a 12.5 percent discount rate) range as follows:

5 years	7.4%
7 years	10.7%
15 years	9.6%

The proposal would eliminate this discrimination by taking away the right to take depreciation deductions for a cost that never existed. It compensates by raising the rate from 7 percent to 10 percent.

Unneutrality Resulting from Other Limitations

Under present law, the credit is limited so that it applies at lesser rates for utility property, at lesser rates for short-lived property (which may include the most productive kind of investment, e.g., computer systems), and at a zero rate where the credit exceeds the 50 percent of tax liability limitation.

These limitations cause the present credit to be seriously unneutral.

1. Because of the income limitation, the credit offers no assistance at all to companies in financial difficulty and with no taxable income. Thus, the companies for which increased productivity is the most critical get nothing at all, and the government is constantly importuned to aid them in other ways, while their investment credits simply go down the drain.

2. The income limitation also causes the credit to discriminate against the innovative, growing firm. They are making large investments now that will produce income in the future. But they lose the credit because of the accidental fact that the smaller investments which they made in the past do not produce enough income to absorb the credit. Big companies with steady budgets avoid this problem. But many smaller companies are hit hard.

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3. A third reason why small businesses are apt to be hit by the income limitation is that it is typically more difficult to average out investment outlays over time in small companies. Large credits are apt to be bunched and thus exceed the income limitations.

4. The short-lived property limitations are another unneutrality. They provide a relative disincentive to investment in shorter lived assets, which may be the most productive of all. Computer systems, for example, may have dramatic effects on productivity. But if they are depreciated over less than seven years (and most are), they get a lesser credit. If they are depreciated over seven years or longer, they get the full credit, but the taxpayer must pay part of it back if he replaces his computer after six years with a more efficient and productive model. Thus, the present credit actually discourages the replacement of obsolete equipment until it has been held at least seven years.

5. Public utility limitations make electricity and telephone communication cost more than they would in a neutral capital market. That results either in higher costs to consumers, or, as in many present cases, inadequate returns to investors and consequent deterioration of financial health and service capability. There may be special reasons why we wish to discourage the consumption of oil today, but there is no reason to discourage the use of electricity relative to other energy sources.

If all these inefficiencies were slight, they might be ignored. But they are major. The nominal 7 percent credit is in fact today an effective credit of only 4.2 percent, i.e., 40 percent of the credit is lost because of these limitations. Preliminary numbers for 1972, the most recent year available, indicate:

	(Billions)	
Cost of investment eligible for credit	$72.0	
Investment credit utilized	3.0	
Effective rate of credit		4.2%
Reduction in credit attributable to:		
1. short-lived property limitation	0.7	
2. public utility property limitation	0.6	
3. taxable income limitation	0.8	
	$ 2.0	

Is Anyone Really Worse Off?

Under the proposed restructuring of the credit, everybody would clearly be better off now. On each $100 of investment in qualified property, everybody gets, immediately, an additional $3 for assets with lives of seven years or more, an additional $5.33 for assets with lives from five to seven years, and an additional $7.67 on assets having lives of three to five years.

Taxpayers with credits that would otherwise exceed the income limitations or that have investments in public utility property will, in addition, recover major credits now lost. Later on these gains will be partially offset by the fact that taxpayers will lose $10 of deductions, which at a 48 percent rate, will increase future taxes by $4.80.

In the longer run, it is clear the pluses are greater than the minuses and that taxpayers as a group will be substantially better off. The continuous revenue losses attest clearly to that fact.

Whether a particular taxpayer will be better off, however, depends on how the pluses and minuses apply to its particular facts and circumstances. As you help your clients asses the restructuring, the relevant factors you will want to consider include:

1. The amount of additional credit obtained from removal of the income limitation and the limitations on short-lived and public utility property.

2. The rate of growth of the company's investment levels. The taxpayer is constantly getting more credit now, in return for losing deductions later. The faster the rate of growth, the longer it will take for the lost deductions to become equal to the additional credits.

3. The cost recovery period applicable to the asset on which the credit is granted. The longer the asset life, the longer the period over which the deductions are lost and the less costly the loss.

Although the several limitations in the present credit cause 40 percent of the 7 percent credit to be lost, a number of our largest and most successful companies presently lose nothing because of those limitations and have nothing to gain from their removal. They have focused--correctly, in their own cases--entirely on whether an additional $3 of credit now is worth more to them than the loss in the future of deductions worth $4.80. Evaluation of that issue is a technical matter which turns on the periods over which depreciation deductions will be taken and on how much the "$3 now" will earn

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before it is offset by the "lesser depreciation deductions later." In general, our staff concludes that if companies assume the $3 will earn for these purposes what they assume investments will earn when they make their capital investment decisions, most companies will be better off whenever the assets lives in question exceed a number somewhere in the range between 10 to 12 years. Those with assets in the 7 to 10 range will be less well off, but only slightly so. And for assets in the three to seven year range, the increase in credit is worth much more than the loss in depreciation regardless of what assumptions are made. In the economy today, approximately 50 percent of the total depreciable base of machinery and equipment relates to assets with lives of 12 years or over. Seventy percent relates to assets with more than 10 year lives.

Even if one assumes that the $3 earns nothing, it is clear that all taxpayers, including those with short-lived assets, will be clearly ahead for a number of years. Given reasonable growth patterns, the amount of additional credit will exceed the disadvantage from loss deduction for a number of years.

It is true that the increase in the credit rate to 10 percent is not a net gain for all taxpayers. It will be a near wash for those who are not affected by the other limitations. What we are basically doing is raising the effective rate of the credit to the same level for everybody. We are retrieving the 40 percent of the credit that presently goes down the drain. One can argue that the benefits of the credit should be extended even further, and I would be happy to make that argument if we could ignore revenue and budget impacts. But we must live within revenue constraints, and we think that the benefit increases that have the highest priority are those that achieve uniformity and redress discrimination.

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The Percent of Investment Eligible to Receive
the Investment Tax Credit, by Industry
(Corporate Only)

Industry	(1) Total investment	(2) Percent of[1/] Investment not covered by the investment tax credit	(3) Percent of[2/] Investment eliminated from the 7% credit due to the asset life limitation	(4) Percent total 3 investme qualifie for the credit
All Industries	100.0	71.1	1.6	27.3
Agriculture	100.0	78.0	3.6	18.4
Mining	100.0	74.9	1.8	23.3
Petroleum and Gas	100.0	76.2	1.1	22.7
Contract and Construction	100.0	86.6	3.8	9.6
Manufacturing	100.0	75.9	2.4	21.7
Primary Metals	100.0	72.8	.7	26.5
Transportation	100.0	39.6	4.2	56.2
Communication	100.0	36.2	3.8	60.0
Electric gas and sanitary services	100.0	42.3	.7	57.0
Wholesale and retail trade	100.0	87.0	2.2	10.8
Services	100.0	70.0	6.4	23.6

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1/ Includes investment not covered due to having an asset life of less than 3 years.

2/ All of investment in assets with lives of less than 3 years, two-thirds of investment in assets with lives from 3-5 years and one-third of investment in assets with lives from 5 to 7 years are excluded from the investment tax credit.

3/ Column (1) minus column (2) minus column (3).

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Effective Price Reduction of Present and Proposed Investment Tax Credit

	Present Law			Proposed Law
Asset Useful Life	Nominal Credit Rate	Effective Price Reduction for Credit without Basis Adjustment (12.5 discount rate)	Percent Increase of Effective Price Reduction over Nominal Credit Rate	Proposed Price Reduction with Basis Adjustment
5	4.67%	7.4%	58.5%	10%
6	4.67%	7.3%	56.3%	10%
7	7%	10.7%	52.9%	10%
8	7%	10.5%	50.0%	10%
9	7%	10.3%	47.1%	10%
10	7%	10.2%	45.7%	10%
11	7%	10.0%	42.9%	10%
12	7%	9.9%	41.4%	10%
13	7%	9.8%	40.0%	10%
14	7%	9.7%	38.6%	10%
15	7%	9.6%	37.1%	10%

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December 9, 1974

Present Values of Net Tax Benefits per $100 Purchase of Eligible Property
Under Proposed 10 Percent Credit Compared with Present Law

Depreciable Life of Property	Net Gain (Loss), Proposed 10 Percent Credit vs. Present Law, with Full Adjustment of Basis — Discount Rate			
	10% (1)	12.5% (2)	15% (3)	20% (4)
(years)	(dollars)			
7	(.66)	(.45)	(.25)	.08
8	(.56)	(.33)	(.13)	.21
9	(.46)	(.22)	(.01)	.34
10	(.37)	(.12)	.10	.46
11	(.28)	(.03)	.20	.56
12	(.20)	.07	.29	.66
13	(.11)	.16	.39	.76
14	(.04)	.24	.47	.85
15	.04	.32	.55	.93
20	.37	.66	.90	1.26
25	.65	.94	1.17	1.51

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Note: Computations assume net income limitation of present law does not affect taxpayer; benefits of proposal are therefore understated. Additional assumptions employed are:

(1) Marginal tax rate = 48 percent.

(2) Sum-of-years digits depreciation, with initial half-year convention is utilized by taxpayer.

(3) Tax depreciation effect discounted from middle of each year.

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Percent Distribution of Investment in Machinery and Equipment
by Asset Life, 1971

Asset Life (years) Greater Than--	and Less Than	Percent of Investment	
3	7	16.6	
7	8	1.3	
8	9	8.1	10.8
9	10	1.4	
10	11	16.0	
11	12	5.2	
12	13	8.7	30.5
13	14	0.6	
14	15	4.9	
15	16	2.6	39.7
16		32.2	
Total		100.0	

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With Average Growth of Investment Levels, Dollars of Aggregate Additional Credit Will Exceed Dollars of Additional Tax Liability from Basis Adjustment for a Number of Years, Even Before Discounting

Guideline Class and Lower Limits of ADR Depreciation Range	Annual Investment Level Starting with $100 and Increasing at 7% Annually 1/ Cumulative Tax After:					
	6 Years		9 Years		12 Years	
	Credit 2/	Depr. 3/	Credit 2/	Depr. 3/	Credit 2/	Depr. 3/
	(dollars)					
Nonferrous (11)	21.4	13.5	35.9	29.2	53.6	49.9
Steel (14.5)	21.4	10.7	35.9	24.7	53.6	44.3
Electronic Products (7)	21.4	18.2	35.9	37.1	53.6	60.9
Electrical Equipment (9.5)	21.4	15.9	35.9	33.1	53.6	54.8
Electrical Utilities (22.5)	21.4	8.0	35.9	18.5	53.6	34.0

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December 9, 1974

1/ Post-World War II average rate.
2/ Aggregate of additional 3 percent credit.
3/ Tax savings from depreciation at 48 percent.

NOTE

The above table reflects no discount factors and thus, in effect, assumes that the cash flow from the credit is earning no return. If one assumes that the credit cash flow does earn a return--which it obviously does--an even longer period of years would elapse before the cumulative positive cash flow from the credit is equalled by the cumulative negative cash flow from the loss of deductions. In the case of longer lived assets the positive cash flow will always exceed the negative.

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December 9, 1974

LIST OF AGENCY REPRESENTATIVES:

1.	FTC	Sheldon Feldman
2.	FDIC	Frank Wille, Chairman
3.	SEC	Al Rusch, Special Counsel Division Lee Pickard, Market Regulation Division (Director)
4.	COMPTROLLER	Gail Pohn
5.	FHLBB	Robert Marshall, Deputy, Communications
6.	FED	Fred Solomon, Director, Off. of Saver & Consumer Affairs
7.	GSA	Thomas M. Thawley, Special Assistant to Administrator for Stockpile Disposal
8.	CONSUMER AFFAIRS	Andrea Schoenfeld
9.	TREASURY	Jack F. Bennett, Under Secretary for Monetary Affairs John Carlock, Fiscal Assistant Secretary Thomas Wolfe, Director, Office of Domestic Gold and Silver Operations Michael Bradfield, Assistant General Counsel

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

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LIST OF PRESS STATEMENTS REGARDING GOLD

FOR RELEASE AT 3:30 P.M., EST, MONDAY, DECEMBER 9, 1974

1. Joint Release of Securities Exchange Commission, President's Special Assistant for Consumer Affairs, Department of Justice, Federal Trade Commission, and U.S. Postal Inspection Service.
2. Statement of the President's Special Assistant for Consumer Affairs.
3. Statement of the Administrator of National Banks.
4. Statement of the Board of Governors of the Federal Reserve System.
5. Statement of the Chairman of the Federal Deposit Insurance Corporation.
6. Statement of the Federal Home Loan Bank Board.
7. Statement of the Office of Stockpile Disposal, General Services Administration.
8. Statement of the Treasury on the Gold Clause Resolution.
9. Statement of the Treasury on Extension of Licenses for U.S. Gold Refiners and Processors.
10. Statement of the Treasury on Consolidation of the Gold Accounts Administered by the Treasury.

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JOINT RELEASE
of
Securities and Exchange Commission; President's Special Assistant for Consumer Affairs; Department of Justice; Federal Trade Commission, and U.S. Postal Inspection Service.

For Release 3:30 p.m. Monday, December 9, 1974.

GOLD PURCHASING AND INVESTING

As of December 31, 1974 the Federal restrictions on the purchase, sale and ownership of gold will be lifted. The President's Special Assistant for Consumer Affairs, the Department of Justice, the Federal Trade Commission (FTC), the U.S. Postal Inspection Service and the Securities and Exchange Commission (SEC) have today issued the recommendations set forth below to prospective gold purchasers and investors

The Department of Treasury recently announced that the U.S. Government will offer for sale 2 million ounces of gold in 400-ounce bars on January 6, 1975, at public auction. The Department will consider at a later date whether subsequent sales of gold would be appropriate.

As in the instance of other precious metals, investors and unsophisticated purchasers must often rely upon the representations of others and the integrity of the seller or promoter. Accordingly, it is recommended that purchasers and investors obtain as much information as possible about the companies and individuals with whom they are dealing. In other words, investigate before you invest.

Various Federal and State regulatory agencies will regulate gold trading. The SEC regulates public interstate offerings of and trading in securities related to gold. Federal law prohibiting unfair or deceptive acts in interstate commerce is enforced by the FTC. Trading in gold commodity futures and transactions involving margin and leverage contracts in gold bullion and bulk gold coins will be regulated effective April 21, 1975 by the recently created Commodity Futures Trading Commission. Federal laws against securities and mail fraud will be enforced by the SEC, the Postal Inspection Service, and the Department of Justice. Justice Department has underway a major effort to detect and prosecute the growing number of frauds involving gold and other precious metals.

The purchase of and investment in gold is a potentially fertile area for unscrupulous promoters and fraudulent schemes. Moreover, the price of gold is oftentimes dictated by speculative interests rather than industrial supply and demand, and is subject to significant and rapid fluctuations.

Inquiries or complaints regarding unfair or deceptive trade practices, including false or misleading advertisements, should be addressed to the FTC's Division of Special Statutes, 7th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20580. With respect to investment programs, prospective investors should insist upon a prospectus or offering circular before making an investment decision. A copy of the prospectus may be reviewed at the public reference facilities of the respective state securities agencies, and in the instance of registered interstate offerings or registered companies, at the public reference rooms of the SEC in Washington, D.C., New York City, Chicago and Los Angeles. To determine whether any particular company is registered with the SEC call or write the SEC, Public Reference Section, 500 North Capitol Street, Washington, D.C. 20549, (202) 523-5506. Information concerning buyer-investor experience with specific companies may be obtained from your nearest Better Business Bureau.

The following guidelines are suggested (but should not be considered to be all inclusive) before purchasing or investing in gold.

1. Be wary of unsolicited correspondence or calls from strangers offering to sell you gold or gold investments;

2. Be skeptical of promises of spectacular profits. Ask yourself why am I being offered this golden opportunity;

3. Resist pressures to make hurried, uninformed investment decisions;

4. Be suspicious of claims of new, secret or exotic processes to extract gold;

5. Seek independent advice from a person you trust and who is knowledgeable;

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6. Consider the risks in relation to your own financial position and needs;

7. Find out if the company has registered with the SEC or state securities agency;

8. Attempt to determine the seller's mark-up (or how much it cost the seller to purchase the gold);

9. Ascertain what costs, in addition to the quoted price of gold, are involved. For example, you may be required to pay a refining charge, assay fees, commissions, shipping and storage fees, insurance costs and sales tax;

10. Demand a written guarantee concerning weight and fineness (pureness). Some gold bears a refiner's mark assaying its weight and fineness; however, there are no Federal standards;

11. Attempt to make your purchases through local reputable firms. (Firms including the term "Exchange" in their name should not be assumed to constitute an association or group of firms which provide a public market for buyers and sellers);

12. Obtain in writing the terms of your purchase, for example, when and how the gold will be delivered and stored, including what security precautions will be taken to insure that your gold is not shaved or that counterfeit gold is not substituted;

13. Ask whether the gold will be segregated and stored in your name (not the seller's or supplier's). Make sure you receive a written receipt showing that the requisite amount of gold is being stored for your account by a reputable concern; and

14. Ask whether there will be a ready market for the gold in the form being offered to you. You may have to pay to have your gold reassayed, recast into a different shape, size and/or transported to a distant market before you can sell it.

The areas which are fraught with the greatest potential for fraud are representations concerning the existence, amount and purity of gold, accuracy of assays and geological surveys and secret refining processes. Several schemes that appear to have already surfaced involve the following situations:

- False mining claims were used to inflate a company's financial position and to tout its investment merit. Bogus or speculative geological surveys by a purported expert or misleading ore samples were used by the company as the basis for unwarranted high estimates of mineral value.

- Purportedly large quantities of gold located outside of the United States and obtained from underdeveloped countries were being offered in the form of certificates of ownership through off-shore banks.

- An unscrupulous assayer conspired with a seller to certify that bars of almost pure lead were pure gold.

- Gold coins of low purity have been issued within the past year or two by small foreign entities. (The Certification Service of the American Numismatic Association, P.O. Box 87, Ben Franklin Station, Washington, D.C. 20044, will, for a fee, authenticate gold coins.)

- Secret processes promised to extract gold from ore which had been previously labeled as worthless. Investors were induced to finance the construction of the secret-process machinery necessary for the production of the gold.

If you believe that you may have been the victim of a fraud, you should consult your attorney to determine what steps to take to assert and protect your rights. You should also communicate such information to any of the Federal agencies listed above or to the Consumer Protection Division of the Attorney General's Office in your state or your State Securities Commissioner, and to your nearest local Better Business Bureau. Consider authorizing your attorney to inform the agencies of any problem that may arise. Although the agencies cannot intervene in your behalf or offer legal representation to obtain redress of your individual rights, your complaint may prevent others from being defrauded.

Remember, investigate <u>before</u> you make a purchase or investment.

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DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
OFFICE OF CONSUMER AFFAIRS
WASHINGTON, D.C. 20201

FOR RELEASE:
3:30 P.M. EST
MONDAY, DECEMBER 9, 1974

FOR FURTHER INFORMATION, TELEPHONE: Area Code 202-245-6861

"Consumers may find that the purchase of gold is more of a minefield than a goldmine unless they are familiar with the risks," Virginia H. Knauer, Special Assistant to the President for Consumer Affairs, warned today. Federal restrictions on the purchase, sale and ownership of gold will be lifted December 31, 1974.

"We have already seen signs that unscrupulous operators are setting traps for consumers," Mrs. Knauer said. "Consumers are new to the gold market and there are no familiar guideposts to help them avoid misleading and fraudulent offers," she added.

Mrs. Knauer said that unscrupulous promoters can be expected to exploit the public's fascination with gold and its fear of inflation. Mrs. Knauer warned that, "Unlike other metals, the price of gold is not determined by supply and demand alone. Speculation drives up the price and that can be a very risky business."

Mrs. Knauer joined with the Securities and Exchange Commission, the Department of Justice, the Federal Trade Commission, and the U.S. Postal Inspection Service in recommending steps consumers should take when investing in gold.

Mrs. Knauer said:

"The first step is to check the reputation of the seller. It is best to buy through someone you know and trust. If you are buying gold securities, check whether the company has filed with the SEC or state securities agency. Be wary of unsolicited letters and calls from strangers offering to sell you gold. Claims of secret new refining processes and exaggerated claims for geological surveys are danger signals for the consumer."

"Be leery of promises of spectacular profits. The spectacular profits may be the dealer's, not yours. The small investor does not pay the price for gold that is quoted in the financial pages of the newspapers. Because he is purchasing small amounts he will have to pay retail prices for his gold.

"Consumers should also watch out for charges in addition to the quoted price of gold. There may be refining charges, assay fees, commissions, shipping and storage fees, insurance costs and sales tax. Insist on a written statement of the terms of your purchases such as when and how the gold will be delivered and stored and what security precautions will be taken to protect the gold from shaving or from substitution of counterfeit gold. Obtain a written guarantee of the weight and fineness (pureness) of the gold and if the gold is being stored for you, be sure that it is stored in your name and that you have a receipt showing that it is stored for your account by a reputable concern such as a bank.

"And before you buy, make sure you will be able to sell. There may not be a ready market for gold in the form being offered to you. You might have to pay to have your gold reassayed, recast into a different shape or transported to a distant market.

"If you suspect that you have been the victim of a fraudulent gold scheme, you should contact your nearest Federal Trade Commission or Securities and Exchange Commission office or the consumer protection division of your state Attorney General's office. Although these agencies cannot intervene on your behalf to obtain individual redress, your complaint may protect others from being defrauded. You should also consult your attorney to determine how you can protect your rights and investment."

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THE ADMINISTRATOR OF NATIONAL BANKS

WASHINGTON, D.C. 20219

December 9, 1974

FOR RELEASE ON MONDAY, 3:30 P.M. Banking Circular No. 58

TO: PRESIDENTS OF ALL NATIONAL BANKS, REGIONAL ADMINISTRATORS AND ALL EXAMINING PERSONNEL

SUBJECT: GOLD

The ban on the private ownership of gold by United States citizens has been repealed.1/ As of December 31, 1974, this prohibition which has been in effect since 1933 will be removed and national banks will once again be permitted to buy and sell gold coin and bullion. It is anticipated that initially there will be an extensive demand for gold. It is further anticipated that the public may rely substantially on banks to handle transactions in gold. Following are some initial considerations categorized as follows: Laws and Potential Problems.

Laws

Although Public Law 93-373 removes the ban on the private ownership of gold by United States citizens the statute does not provide for a total elimination of prior law respecting gold transactions. The National Bank Act2/ provides that national banks may exercise their powers "by buying and selling exchange, coin and bullion." Consequently,

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1/ Public Law 93-373, passed August 14, 1974.

2/ 12 U.S.C. 24 (Seventh).

banks may only deal in gold that qualifies as coin or bullion. The term "coin" means coins minted by a government,[3/] or exact restrikes of the coins minted at a later date by, or under the authority of, the issuing government. The term "bullion" refers only to gold and silver. Platinum, or any other precious metal, is not considered bullion. Bullion is also limited to gold that has been refined to a high degree of purity. This Office has determined that gold of 0.900 fineness or better will be acceptable as bullion. In most cases banks will handle gold of 0.995 or 0.9995 purity. Any gold of less than 0.900 purity will be considered a gold alloy which national banks will not be permitted to buy or sell. National Banks should have available, for inspection by national bank examiners, evidence of the purity of the bullion they have in inventory.

Even though United States citizens may own gold after December 31, 1974, they are still bound by the Joint Resolution of June 5, 1933 (31 U.S.C.463). The resolution declares to be against public policy and makes unenforceable contract clauses by which obligations are payable only in gold or in an amount of money measured by the value of gold.

The restrictions contained in the Glass-Steagall Act prohibiting investments in or underwriting of securities are also applicable to securities of companies involved in gold other than the bank.

3/ The term "government" includes the United States or a foreign government.

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Potential Problems

1. Insurance.

Even if a national bank does not own its gold inventory, it still may be responsible for insuring the coins and bullion in its possession. If a bank's supplier insures gold shipments in transit, the receiving bank may be responsible for insuring gold in its vaults. If an inventory is anticipated the bank should determine that its blanket bond covers this asset or whether separate insurance is necessary. In addition, banks must provide for proper internal controls with respect to access by bank employees to the gold inventory. Any gold for which a safekeeping receipt is issued must represent gold physically on hand at all times.

2. Accounting.

Gold owned by the bank should be reflected on its ledgers under "other assets." The book value of the bank's gold inventory should be adjusted at least monthly to reflect its current market value. Any futures transactions in gold should be reflected on the daily statement as a memoranda account.

3. Personnel.

If a bank decides to offer gold services to its customers trained personnel must be provided.

4. Collateral.

Gold, like any other asset may be utilized as collateral for a loan. Nevertheless, a concentration of loans collateralized by gold will be reviewed by national bank examiners in the same way as any group of loans with the same type of collateral. Prudent lending policies with respect to valuation of collateral and ratio of loan to collateral value must be observed. Gold related loans should be considered nonproductive credits unless extended for commercial or industrial purposes.

5. Public Relations.

Although a bank may feel obligated to provide gold services to its customers possible adverse consequences of marketing gold on customer relations should not be overlooked.

If a gold sale program is provided by the bank without arrangements to repurchase gold from customers, poor public relations could result. If the bank chooses to sell gold to customers and also to repurchase it, provisions must be made to assure the purity of the gold. If the bank provides safekeeping for gold sold to customers and the metal never leaves the custody of the bank this problem is alleviated, however, storage and security must be considered. If a bank does not want to repurchase gold for its own account, the bank's supplier may be willing to purchase the gold at current market value less a discount. The secondary market will be facilitated if the original selling bank retains possession of the gold in safekeeping.

When a customer takes possession of his purchased gold, even if he places it in a safe deposit box in the bank, care must be exercised when

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the gold is repurchased. The first rule is to know your customer. All questionable gold should be accepted subject to assay. Unfortunately, an assay is expensive, it defaces the bullion, and it reduces the size of the piece of gold.

6. Inventory.

It is recommended that maintenance of an inventory of gold be limited to the reasonable needs of the bank's customers. Because of the volatility in the price fluctuation of gold, inventories other than to meet the reasonable needs of the bank's customers will be reviewed by this Office to determine if such investment constitutes an unsafe or unsound banking practice. Management's expertise in this area, risks undertaken in relation to equity capital and the needs of customers will be considered in making this determination.

Trading in gold for the bank's own account should be limited and the risks to the bank fully explored prior to any such undertaking. At a minimum the bank should consider the following: the experience of its personnel, services to be provided, anticipated inventories and positions, safekeeping facilities, insurance coverage, audit procedures, and anticipated impact on earnings.

7. Director Authorization.

Prior to trading in gold for its own account the bank's Board of Directors must formally authorize this activity. The text of this authorization is to be forwarded to the appropriate Regional Administrator of National Banks. Banks must keep accurate current figures on the amount and price of gold in their trading account.

8. Disclosure.

Many of the bank's customers may be unsophisticated with respect to gold transactions and, therefore, will seek the bank's advice with regard to soundness of an investment in gold. In this regard banks should assure that prospective gold purchasers realize the following: The gold market is volatile and there is a possibility that a loss will be incurred from an investment in gold. Further, an investment in gold provides no yield or interest. As a result, gold prices would necessarily have to rise over the investment period in order to provide a return equivalent to that of certificates of deposits or other income producing assets. Moreover, gold will be sold to customers at prices which include retail markups, safekeeping charges, shipping and sales taxes.4/ Therefore, the customers' price for gold will be somewhat in excess of quoted gold exchange prices. This coupled with gold's volatility means a forced liquidation may result in a loss.

9. Management Planning.

Each bank must determine individually if and to what extent it will become involved in gold. Once a national bank decides to purchase or sell gold coins and bullion it may begin advertising this new service. A bank may begin advertising its gold program prior to December 31, 1974. However, until that date it remains illegal for any United States

4/ In certain states national banks may be required to collect sales taxes, pursuant to a sale of gold.

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citizen, including national banks, to contract for the purchase of gold bullion. Certain preliminary negotiations with suppliers are permitted, but no contract for gold may be consummated. Care must be taken in advertising a bank's gold program. It is the responsibility of each bank which establishes a gold program to assure that its actions are sound and prudent.

Questions with respect to bank participation in buying or selling gold should be directed to either: Gail W. Pohn, Assistant Chief Counsel, Albert Elder, Staff Attorney, David Oppenheimer, Staff Attorney (Phone: 202-447-1880), or Bonnie Brown, Assistant to the Chief National Bank Examiner (Phone: 202-447-1962).

James E. Smith

James E. Smith
Comptroller of the Currency

FEDERAL RESERVE

press release

/01

For use at 3:30 p.m. EST
Monday, December 9, 1974

December 9, 1974

The Board of Governors of the Federal Reserve System today issued the following material relating to banking prudence and Federal Reserve responsibility in connection with the lifting of the ban on private ownership of gold:

1. A letter sent to all State member banks by the Presidents of the Federal Reserve Banks relating to questions of banking practice in gold-related transactions.

2. A statement regarding the treatment of gold by the Federal Reserve Banks.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

Letter Sent To Each State Member Bank
By The Federal Reserve Bank Of Its District

TO: The Chief Executive Officer
of Each State Member Bank

Public Law 93-373 provides that on December 31, 1974, the ban on private ownership of gold will end. After that, United States citizens may own gold and trade in it as they might any other commodity. National banks possess statutory authority to buy and sell "exchange, coin, and bullion," and some State laws contain similar provisions with respect to State-chartered banks. The Office of the Comptroller of the Currency has determined that gold will not be acceptable as bullion unless it has a fineness of 0.900 or better.

For the past 41 years, United States citizens have been able to hold gold only under U.S. Treasury license. During this period, private individuals and banks have had negligible experience with gold. Gold is not legal tender. Rather, it is a highly speculative commodity, subject to widely fluctuating prices. In light of these circumstances, State member banks will wish to proceed cautiously, should they decide to provide gold-related services to customers.

The Federal Reserve System believes that the following information will be useful to State member banks in the event that they decide to participate in gold transactions. Similar information is being issued by other Federal banking agencies with respect to banks under their jurisdiction.

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If a bank does decide to engage in gold-related activities, it ordinarily would be preferable for it to act only on a consignment basis or otherwise as agent.

The risk inherent in gold transactions is such that any State member bank considering acting as principal with respect to gold transactions should give advance notice to the Federal Reserve Bank of its district. The advance notice should contain information relative to experience of personnel, services to be provided, anticipated inventories and positions, safekeeping facilities, insurance coverages, audit procedures, and anticipated impact on earnings.

Banks should not engage in the business of issuing receipts for gold without considering the implications of securities laws; and any gold for which a bank issues any form of receipt must be physically held on hand at all times and under strict safeguards. Moreover, obligations payable in gold or its equivalent are still unenforceable (Public Resolution of June 5, 1933, 31 U.S.C. 463).

As with any commodity loan, it is anticipated that banks will carefully consider such matters as adequacy of margins on loans collateralized by gold, precautions to assure authenticity and safe custody of gold held as collateral and total risk exposure from gold-related loans. Moreover, gold-related loans should be considered nonproductive credits unless extended for commercial or industrial purposes.

If a bank should decide to offer gold for sale, it should carefully avoid excessive or misleading promotions which could lead to unrealized

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expectations by bank clients and adversely affect public confidence in a particular bank or the banking system.

Examiners will pay strict attention to the relevant accounting practices of banks and recordkeeping for accounts of customers. Any gold owned should be shown on financial statements under "other assets", and any hedging futures contracts should be shown as a memorandum item. It would be anticipated that a bank would revalue accounts at least monthly to reflect current market values.

During examinations of State member banks, examiners will review closely a bank's total involvement in gold-related transactions to assure that individual banks and the banking system are not exposed to undue risk. Among other considerations, examiners will be concerned with management's expertise in this area, risk undertaken in relation to the bank's equity capital, and the needs of customers. An undue concentration of gold loans, as with any imprudent involvement in gold transactions, could constitute an unsafe or unsound banking practice subject to action under the cease-and-desist provisions of the Financial Institutions Supervisory Act of 1966. Our examiners are instructed to be vigorous in countering any manifestation of bank speculation in gold.

Sincerely yours,

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

STATEMENT REGARDING TREATMENT OF GOLD BY FEDERAL RESERVE BANKS

The Board has received numerous inquiries from member banks relating to the repeal of the ban on ownership of gold by United States citizens. A statement on the subject is being sent to all State member banks similar to statements being sent to national banks by the Comptroller of the Currency and insured non-member banks by the Federal Deposit Insurance Corporation. In addition, there are listed below questions and answers which affect member banks and relate to certain other responsibilities of the Federal Reserve.

(1) May gold in the form of coins or bullion be counted as vault cash in order to satisfy reserve requirements? No. Section 19(c) of the Federal Reserve Act requires that reserve balances be satisfied either by a balance maintained at the Federal Reserve Bank or by vault cash, consisting of United States currency and coin. Gold in bullion form is not United States currency. Gold coins are not considered legal tender by the Department of the Treasury and, therefore, are not United States currency or coin.

(2) Will the Federal Reserve Banks perform services for member banks with respect to gold, such as safekeeping or assaying? No.

(3) Will a Federal Reserve Bank accept gold as collateral for an advance to a member bank under § 10(b) of the Federal Reserve Act? No.

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FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

FOR RELEASE MONDAY, 3:30 P.M.
December 9, 1974

PR-72-74 (12-9-74)

FDIC POLICY STATEMENT ON GOLD

On December 31, 1974, Public Law 93-373, which removes the restrictions on a person "purchasing, holding, selling, or otherwise dealing with gold," becomes effective. The word "person" in the Act has been construed to include banks. Thus, to the extent authorized by state law, State nonmember banks will be permitted to deal in gold.

Trading in any commodity, including gold, is a highly speculative activity. The past experience of individuals and companies in the commodities markets indicates that, at minimum, commodities trading is a very risky activity for the novice. In the case of gold, moreover, the more than forty year old prohibition against U. S. citizens holding and trading in gold has meant that few persons have even a nominal degree of expertise in such activity. The Corporation therefore believes that insured State nonmember banks should consider confining their trading in gold to purchases and sales on a consignment or agency basis. Irrespective of the manner in which an insured nonmember bank intends to deal in gold, the Corporation should be notified of such intention. */

Insured nonmember banks which are considering dealing in gold for their own accounts should carefully evaluate the experience and ability of their present staffs in this regard before proceeding. Further, such banks should bear in mind that gold ownership exposes them to possible loss due to adverse fluctuations in market value. In order to minimize such exposure, banks may find it necessary to conduct limited trading in gold futures for hedging purposes. Banks considering holding inventories of their own gold are reminded that gold bears no yield or interest and that any such inventory should be reflected as "other assets" and should be periodically adjusted to current market value.

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*/ Insured nonmember banks intending to trade in gold should submit written notice of such intent to the appropriate Regional Office of the Corporation at least 10 business days prior to the initiation of such trading. Such notice should include all information the bank deems relevant to its proposed activity including whether the bank will be trading for its own account or solely on an agency or consignment basis, the projected amount and purpose of any such trading, the experience of those individuals who will be engaged in the trading, insurance arrangements which will be in effect and, where applicable, the relation of the bank's capital and earnings to the projected amount of gold that the bank will acquire for its own account.

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Even the sale of gold by a bank to its customers on a consignment basis, while not subjecting the bank to possible losses due to fluctuations in the price of gold, entails certain other risks of which insured State nonmember banks should be aware. These problems can also arise with respect to sales of a bank's own gold. First, banks may bear the risk of any loss with respect to gold which they hold, even when it is held on consignment. Banks considering holding gold should therefore evaluate the adequacy of their present security arrangements. Second, gold purchase or consignment agreements entered into by a bank may not provide it with the right to re-sell to the dealer any gold which the bank's customers ask the bank to repurchase. Thus a bank might be forced to refrain from repurchasing gold which it had previously sold to its customers. Third, banks should attempt to minimize the possibility of receiving, and ultimately selling, bogus gold by entering into agreements only with responsible, reputable dealers. In this connection, insured nonmember banks should be especially wary of proposals which purport to offer gold to them at or below the current market price. They should pay particular attention to the degree of fineness (purity) of the gold so offered. The inadvertent sale of gold which does not conform to a bank's representations may well expose the bank to unfavorable publicity or legal action. Fourth, banks engaging to repurchase gold from their customers should consider retaining possession of the gold pursuant to a sale/safekeeping agreement. Unless the gold has constantly remained in the possession or control of the bank, it may be necessary for the bank to acquire or utilize facilities for weighing and assaying gold it plans to repurchase.

Many insured nonmember banks, including banks which do not choose to offer gold for sale to their customers, may find themselves engaged in safekeeping arrangements for gold owned by their customers. Here too, banks contemplating providing such services should evaluate the adequacy of their security arrangements. Where the size or amount of the gold received cannot feasibly be held in normal safe deposit facilities, banks should take care to segregate such gold in their vaults and to issue receipts to their customers therefor. Such receipts, whether issued in connection with a sale/safekeeping transaction or otherwise, should be issued in non-negotiable form and should refer to a specifically identifiable amount of gold. Each receipt and any advertisement of gold safekeeping services should also state clearly and conspicuously that the gold held pursuant to the safekeeping arrangement is not a deposit insured by FDIC.

It is the opinion of the Secretary of the Treasury that Public Law 93-373 did not repeal or alter the so-called Gold Clause Resolution of 1933 (31 U.S.C. 463). The Resolution prohibits any contractual provision which purports to give the obligee the option of requiring payment of the obligation in money or a specified amount of gold. Deposit contracts which purport to give the bank's customer such an option are therefore rendered legally unenforceable by the terms of the Gold Clause Resolution. Contracts specifically payable only in gold may be similarly unenforceable where the parties to the contract view the gold as a medium of discharging a debt, such as a deposit liability, rather than as a commodity to be traded. Needless to say, sound banking practice dictates that insured nonmember banks

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not enter into legally unenforceable deposit contracts. Conversely, while contracts entered into by a bank treating gold as a commodity, rather than a currency, such as futures contracts, may be valid obligations of the bank, they do not give rise to "deposits" insured by FDIC.

Insured nonmember banks should exercise care so that the aggregate amount of gold held as collateral for loans does not become unduly large. Adequate margin requirements on such loans (such as valuing the gold at 50 percent of the current market price) should be maintained and banks should revalue gold held as collateral at least monthly. Banks considering making loans for the purpose of enabling the borrower to purchase gold should bear in mind that such loans, unless made for industrial or commercial purposes, are speculative and nonproductive. As in the cases of the sale and safekeeping of gold, banks should consider the adequacy of their facilities for authenticating and protecting gold held as collateral for loans.

In sum, the Corporation believes that insured nonmember banks should move cautiously in regard to dealing in gold. Those banks offering gold for sale should consider possible adverse customer reaction if the price of gold drops and endeavor to warn their customers of the highly speculative nature of such an investment. Banks should also check their security systems for compliance with the Corporation's Part 326 and any subsequent revisions thereof.

Similar policy statements are being issued by the other Federal bank regulatory agencies with respect to banks under their jurisdictions.

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NEWS

FEDERAL HOME LOAN BANK BOARD

WASHINGTON, D.C. 20552

TELEPHONE (202) 386-3157

- FEDERAL HOME LOAN BANK SYSTEM
- FEDERAL SAVINGS & LOAN INSURANCE CORPORATION
- FEDERAL SAVINGS & LOAN SYSTEM

For Release at 3:30 P.M. Monday, December 9, 1974

Public Law 93-373 provides that on December 31, 1974 the ban on private ownership of gold will be lifted. However, even though Public Law 93-373 removes the ban on the private ownership of gold by United States citizens, the statue does not provide for a total dissipation of prior law respecting gold transactions. In view of this situation, the Federal Home Loan Bank Board has determined that it would be in the public interest to express its policy on dealing with gold by those institutions subject to its regulatory authority.

At this time, the Board's policy determinations are as follows:

1. Federally chartered savings and loan associations will not be allowed to purchase, hold, sell or otherwise deal with gold. The Board will take supervisory action against any Federal association so doing.

2. The authority of State-chartered savings and loan associations to deal with gold is primarily a matter of State law. The Board will, however, direct its examiners to scrutinize carefully any form of dealing with gold by State-chartered insured institutions. The Board will prohibit dealing with gold by such institutions to the extent that it determines on the basis of experience that such dealing constitutes an unsafe or unsound practice. The Board may also need to consider the issuance of special regulations with respect to any insured institutions that determine to deal with gold, such as accounting and safekeeping rules and rules concerning evidence of the fineness of gold held in inventory.

3. The Board will not permit gold or gold-related securities to count as liquidity by member institutions or to be used as collateral for advances by the Federal Home Loan Bank System. The Board will not permit dividends or interest on savings accounts to be paid in gold.

4. The Board will not permit Federal association service corporations to deal with gold. This activity will not be pre-approved, nor will it be approved upon application. The Board will similarly not permit dealing with gold by the service corporation subsidiaries of State-chartered insured institutions that are subsidiaries of unitary savings and loan holding companies.

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5. The Board will not preapprove, nor will it approve upon application, dealing with gold by multiple savings and loan holding companies or their non-insured institution subsidiaries.

6. The Board will not permit Federal Home Loan Banks to deal with gold.

It is the Board's intention to propose promptly the necessary formal regulations and statements of policy to reflect these policy determinations.

All Federal Home Loan Bank member institutions are specifically cautioned that, nothwithstanding the enactment of Public Law 93-373, contractual provisions calling for payment in gold or its equivalent are still prohibited by section 463 of title 31 of the United States Code. Section 463 would, for example, bear on the ability of institutions to offer certificates of deposit or other accounts repayable in gold. Member institutions that determine to offer gold services to their customers are also specifically cautioned that under certain circumstances such offerings may constitute "securities" under Federal and State securities' laws.

In reaching the foregoing policy determinations the Board considered that gold is not legal tender; that gold is a highly speculative commodity subject to significant and rapid price fluctuations; that successfully dealing with gold requires unusual managerial expertise and investor sophistication; that gold transactions involve special precautions regarding security, counterfeiting and assurances of purity; and that gold is a non-interest bearing commodity whose holding and sale generally involves unrealized costs for storage, insurance, transportation and reassaying.

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Stockpile Information

UNITED STATES GOVERNMENT
GENERAL SERVICES ADMINISTRATION
Office of Stockpile Disposal

Office of Information-18th and F Streets, N.W.-Washington, D.C. 20405 - (202) 634-6557

For Release: 3:30 pm
December 9, 1974

GSA #P-1317

The General Services Administration today announced the offering of approximately 2 million fine troy ounces of gold from the United States Treasury stocks for sale on a competitive bid basis.

This follows Secretary of the Treasury William E. Simon's announcement in testimony before the House International Finance Subcommittee on December 3. GSA's Office of Stockpile Disposal which is engaged in the sale of industrial materials excess to the national stockpiles will carry out the sale by sealed bids. Bids to purchase the gold must be received no later than 11 a.m., prevailing Washington, D.C. time, Monday, January 6, 1975, at which time all bids received on a timely basis will be publicly opened. Invitation for Bids MET-219 will be issued December 13 to provide the terms and conditions of the sale. All bids must be submitted on copies of Invitation for Bids MET-219.

The gold is in approximately 400 troy ounce bars and typically 999 fine (99.9 percent pure gold) or better. Bars will be available for delivery at the U.S. Assay Office, New York, New York; the U.S. Assay Office, San Francisco, California; and the U.S. Mint, Denver, Colorado. A minimum bid will be 400 fine troy ounces for delivery at any one of the three locations. Larger bids are to be in multiples of 400 fine troy ounces. Bars are marked with U.S. Mint or Assay Office seals, melt and bar numbers, gross weight in troy ounces, fineness of the gold, and year of record. While total sales will be limited to approximately 2 million ounces, bidders may select the entire quantity of gold from the New York and San Francisco locations but only 150,000 ounces will be available from the Denver facility.

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A bid deposit of 5 percent of the total amount of the bid is required and must accompany the bid. Deposits must be furnished by cashier's or certified check made payable to GSA, or in cash, or by a combination of those means.

Considerations for awards will be on the basis of the best price to the Government. The Government reserves the right to reject any and all bids if bid prices are at unacceptable levels. A successful bidder will be notified by telephone or telegram of the Government's acceptance of his bid on January 6 or the next day in the event of a communication delay and such notice of acceptance shall constitute a purchase contract. Awards will be made to the nearest whole bar corresponding to the quantity of the bid accepted by the Government and the total purchase price shall be adjusted upward or downward on the basis of the unit bid price and the delivered weight. U. S. Bureau of the Mint assays and weights are final for settlement purposes.

A purchaser is to take delivery of the gold within 20 days from the Government's notification of the specific weight awarded or within 30 days following the telephonic or telegraphic notice of acceptance of its bid by the Government whichever is later. Full payment must be made prior to delivery of the gold. Deliveries will be made by hand-to-hand receipt, f. o. b. carrier's conveyance at the respective locations from which gold has been awarded to the purchaser.

Invitations for bids are being issued to each firm on GSA's mailing lists for gold, silver, and platinum group metals. Additional requests for Invitation for Bid MET-219 and other inquiries should be directed to Chief, Metals Branch, Office of Stockpile Disposal, General Services Administration, 2000 L Street, NW., Washington, D. C. 20036, telephone (202) 634-6522.

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

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FOR RELEASE 3:30 P.M., EST,
MONDAY, DECEMBER 9, 1974

Statement on Gold Clause Resolution

The repeal of the restrictions on private ownership of gold effective December 31, 1974, has prompted a number of inquiries on the continuing validity of the Gold Clause Joint Resolution enacted by Congress on June 5, 1933. This statement is issued by the Treasury Department, after consultation with other concerned Government agencies, to help clarify the application of this law.

The Gold Clause Joint Resolution (31 U.S.C. 463) provides that "every provision contained in or made with respect to any obligation which purports to give the obligee a right to require payment in gold or a particular kind of coin or currency, or in an amount in money of the United States measured thereby, is declared to be against public policy ...." This law mandates that such provisions shall be discharged upon payment, dollar for dollar, in the current legal tender. It is Treasury's view that the Gold Clause Joint Resolution continues to apply after the lifting of restrictions on bullion ownership.

Under the Resolution a contract clause providing for payment in gold, or in United States dollars equivalent to a certain amount of gold, is not enforceable if the subject of the contract is something other than gold, so that gold as a commodity has no relationship to the business being transacted. In such a case, gold would be used solely for the purpose of establishing the value of the obligation. This view is based on judicial decisions which held unenforceable a lease providing for payment in gold bullion as one method of rent settlement, since the intention of the parties by using gold in the contract was solely to stabilize the dollar value of the rent. Holyoke Water Power Co. v. American Writing Paper Co., 300 U.S. 324 (1937); Emery Bird Thayer Dry Goods Co. v. Williams, 107 F. 2d 965 (1939). Similarly, loans or certificates of deposit repayable in gold, or in an amount of dollars measured in terms of gold, would be unenforceable.

In contrast, if gold as a commodity is the subject matter of the contract, then the Resolution would not bar enforcement according to its terms. For example, a present sale of gold bullion or coins and a sale of gold for future delivery (i.e., a gold futures contract) fall outside the Resolution. A similar conclusion has been reached with respect to a contractual provision giving a shareholder, in an organization with assets consisting of gold, the right to redeem his equity, either in those assets, or in an equivalent amount of dollars at the then current market price, would be enforceable.

Contracts containing multiple currency clauses, as in the past, are unenforceable under the Resolution. The reason for this is that in the late 1930's the Supreme Court construed the Resolution to prohibit enforcement of multi-currency contracts.

Multi-currency clauses are now common in contracts in international financial markets. For example, bonds are issued and denominated in "Eurcos" which provide for payment in a number of European currencies in an amount measured by an index composed of these currencies. The Secretary of the Treasury has indicated that consideration of a change in the law at the next session of Congress to allow American businessmen to deal in this kind of instrument would be desirable.

The United States law making gold clauses unenforceable has been in effect solely during the period in which private ownership of gold by United States citizens was prohibited. Nonetheless, there is nothing inconsistent between private ownership of gold and the Gold Clause Joint Resolution. Canada, France and Germany, for example, have for some years allowed private ownership of gold while prohibiting gold clauses.

Finally, this area of the law is subject to varying legal interpretations and, as in other cases of statutory construction, the final arbiter must be the courts.

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

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FOR RELEASE AT 3:30 PM, EST
MONDAY, DECEMBER 9, 1974

Statement of the U.S. Treasury on Extension
of Licenses for U.S. Gold Producers and Refiners

A number of licensed U.S. refiners and processors of gold for industrial and artistic use have indicated that during the balance of this month they will have spare refining and processing capacity which could be used -- if the amounts of gold which they are permitted to hold were increased -- to prepare small size bars and wafers of gold bullion of a type which U.S. citizens may be interested in purchasing when existing restrictions are ended on December 31, 1974.

To the extent that use of the U.S. refining and processing capacity is restricted for this purpose, such bars and wafers will probably be imported from foreign refiners and processors in the early days after removal of the restrictions.

Accordingly, to prevent a waste of U.S. productive capacity, the Treasury is today notifying the licensed U.S. refiners and processors that, upon application, prompt consideration will be given to modifying their licenses to permit them to hold reasonable additional amounts of gold for refining and processing.

The necessity for licenses will expire on December 31, 1974.

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WS-174

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR RELEASE AT 3:30 PM, EST
MONDAY, DECEMBER 9, 1974

STATEMENT OF THE U.S. TREASURY ON CONSOLIDATION OF GOLD ACCOUNTS ADMINISTERED BY THE TREASURY

At the opening of business today there were three different gold accounts administered by the Treasury.

The General Account of the Treasury held 271,430,657 ounces of gold, valued at $11,460 million at the par value of the dollar in terms of gold, against which gold certificates had been issued to Federal Reserve Banks in exchange for dollar deposits for the account of the Treasury at those Banks. The gold certificates represent a pledge by the Treasury of a corresponding amount of gold until such time as the certificates are repurchased for dollars by the Treasury.

The General Account also held 2,518,006 ounces of gold, valued at $106 million at the par value, against which no gold certificates had been issued.

The Exchange Stabilization Fund administered by the Treasury held 2,019,751 ounces of gold, valued at $85 million, which had been acquired by the Fund prior to August 15, 1971, when the Fund engaged from time to time in gold transactions with foreign monetary authorities and with the market for the purpose of stabilizing the value of the dollar relative to gold.

In view of the likelihood that the Exchange Stabilization Fund will not be engaging in further transactions to stabilize the value of the dollar relative to gold the gold held by the Fund was sold today to the Treasury at its par value.

Gold certificates were then issued by the Treasury to the Federal Reserve Banks for all the ounces of gold held in the General Account for which such certificates had not previously been issued, and the Banks deposited $191 million to the accounts of the Treasury. The Treasury now holds gold in only one account, that is 275,968,414 ounces, valued at $11,652 million, against all of which gold certificates have been issued.

(more)

WS-177 (REVISED)

The transactions undertaken have had no direct effect on any individuals or institutions apart from the Treasury, the Exchange Stabilization Fund, and the Federal Reserve Banks. The additional deposit balances of the Treasury in the Federal Reserve Banks will be available for the use of the Treasury.

In future when sales of gold are to be made by the Treasury the corresponding gold certificates will be redeemed by the Treasury prior to transfer of the gold to its purchasers.

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

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FOR RELEASE UPON DELIVERY
MONDAY, DECEMBER 9, 1974

REMARKS OF THE HONORABLE GERALD L. PARSKY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE NEW YORK ASSOCIATION OF BUSINESS ECONOMISTS
AT THE HARVARD CLUB, NEW YORK, NEW YORK
12:00 NOON, DECEMBER 9, 1974

"ECONOMIC DIMENSIONS OF WORLD OIL"

I am very pleased to have the opportunity to discuss with this distinguished group important aspects of the economics of international oil. Today as never before, oil policy has become intertwined with national and international political concerns to such an extent that it is easy to lose sight of the economic facts. I would hasten to point out that this increased politicization of economics applies to both the domestic and international areas. For instance, domestically we have posed major obstacles to the efficient market allocation in energy by regulating the price and distribution of natural gas and by manipulating the pricing and distribution system in oil. Such decisions are not based on economics but to a large extent are political. Similarly, decisions have been made internationally by oil producing countries to maintain price levels for oil that are more related to politics than to economics. These issues are certainly complex, but I think it is important to try to understand more of the economics and less of the politics of oil and oil-related issues, and I would like to concentrate on this today.

Economic Facts About Oil Prices

The five-fold increase in international oil prices -- from less than \$2.00 per barrel (for S.A. light crude) before October of 1973 to over \$10 per barrel today present the world with a very serious economic challenge. A great deal has been said about the price level, about the impact of \$10 oil, but it is not only the level of oil prices, but the rapidity with which they rose, following a prolonged period of cheap energy, which magnifies the adjustment problems we face.

This year payments to the OPEC nations have soared to over $85 billion, compared with $22 billion in 1973, and they are now running at an annual rate of about $100 billion. Exports by the rest of the world to OPEC have also increased, but this year alone the OPEC nations as a group will accumulate some $60 billion more in income than they can spend on imports of goods and services. A small fraction of this surplus will be distributed as grant aid to some LDCs; and the massive remaining amount, in excess of $55 billion, will represent an increase in debt of the rest of the world to the OPEC members.

The costs imposed on the world economy by these oil prices are severe. For the United States, we estimate that the direct and indirect effects of the price increases which occurred between the summer of 1973 and the summer of 1974 will have contributed about five to eight percentage points to the increase in our wholesale price index, when the effects are fully felt. The subsequent oil price increases this fall will contribute further to inflation. For many other oil importing nations, the contribution of the oil price increases to inflation will be even greater.

Some have argued that a massive transfer of wealth, real and financial, from the industrialized countries to the oil producing countries is necessary and "just". Such arguments, which follow the idealogy of the so-called "New Economic Order", see economics as a zero-sum game in which the poorer nations cannot develop unless the industrial nations are repressed. This thinking, however, does not take into account the basic dynamics of interdependent economic development, in which all nations become better off as economic development proceeds. It is important to emphasize that the future economic well-being of the OPEC nations, in fact, depends very heavily on the health of the industrial economies. The massive transfer of wealth from the industrialized countries will be a very transitory benefit to the oil producing countries if it damages the market for their product and the international economic and financial order which will provide the basis for long-run economic diversification for these same countries.

Some oil producing countries have begun to recognize these economic realities. Others will do so as well, and as they do, oil pricing policies will shift. However, to better understand why, lets look at the price issue in more detail.

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Economically Present Oil Prices Should Not Be Maintained

First, from an economic standpoint, I don't believe present world prices should be maintained for several reasons:

-- They are far above what they would be if they were set by free market forces. The OPEC countries have had to shut in nearly 8 million barrels a day of capacity to maintain this price. Even during their oil embargo, their excess capacity did not reach this level. The price level bears no relation to the cost of production of oil or other sources of energy. While it takes time to develop the alternative sources of oil and other energy sources which were not developed during the past period of $2-$3 a barrel oil, a price level which was too low such sources can be brought on stream at costs signficantly below $10-$11 a barrel (oil equivalent).

-- Further, it is frequently stated that the five-fold increase in oil prices was required by the oil producers to keep pace with the rising costs of their imports. There is a legitimate reason for nations to be concerned with trends in their terms of trade, particularly in a period of high inflation. But the magnitude of recent oil price increases cannot be justified on these grounds. The oil price increases have far outstripped rises in other commodity prices. At Treasury, we have constructed an index of imports for the OAPEC nations which, when compared with producer government (S.A.) revenues per barrel of oil, shows that a barrel of oil today buys the producer countries some five times what it did two decades ago and four times what it bought as recently as last December. Take any other reasonably appropriate commodity price index and any other base year and you will get a similar result, showing enormous improvements in OPEC terms of trade due to recent price increases.

There's no question that the owner of a commodity has the right to sell it at whatever price the market will bring. However, the owner must bear in mind his long-term objectives as well as his short-term gains. In this regard, present oil prices are far in excess of the level which would optimize long-term profits to the OPEC nations under a wide range of feasible assumptions about such factors as the elasticities of demand and alternative supplies, discount rates, and time horizons. As economists you recognize that the level of production which maximize profits to a monopolist is less than the level of production that will result from free competition, and the price is correspondingly higher. Yet we must not forget that a monopolist can set a price which is too high, because it could lead to a reduction of his monopolistic control over supply. I believe that a continuation of $10-$11 oil has the potential of doing just that.

Economically Present Oil Prices Are Not Sustainable

Even if we accept the fact that the present prices of oil should not be maintained, we are still faced with the the question of whether they are economically sustainable. I believe they are not.

Why do I feel the price will come down? Basically because I believe that oil like other commodities, cannot be held immune to the forces of supply and demand indefinitely. The OPEC members do not have control over all the current and potential sources of oil in the world and surely have no control over alternative sources of energy. Nor is the world's demand for oil, or even energy, insensitive to price. The sharp jump in prices has already resulted in reduced oil comsumption around the world, and the longer run price elasticity of the demand for oil surely is far greater than what has been experienced thus far. Consumption of oil in the non-communist oil importing countries of the world is projected to decline this year to about 46-1/2 million barrels per day as compared with 48 million barrels per day last year.

Looking to the future, we believe that effective programs of conservation could achieve a reduction in oil 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 won't be easy; but it is attainable, and it would result in import savings at an annual rate of some $11 billion at present price levels.

A key to achieving this, however, will be what we in the U.S. do. President Ford has announced a program to reduce U.S. oil imports by one million barrels a day below what they otherwise would have been by the end of 1975. The program is largely voluntary in nature, and we are reviewing it at the present time. In that regard, it should be noted that our oil consumption is currently down from where it was at this time last year by about 250,000 barrels per day. Therefore, savings are taking place. However, we are determined to save more, and if more stringent restraints are needed, they will be employed.

While in the near term conservation efforts will be of primary importance, further pressures reducing the demand for imported oil will result from the developing of alternative supplies. In many cases this will take time, but already in the past year 26 significant new oil discoveries have been reported. An increase of at least 30 billion barrels of oil have been added to proven reserves outside the OPEC countries -- a one year increase of 25%, and by 1980, these finds will have a significant production potential. The important point is that all of this oil will reduce OPEC's potential market.

Within the United States alone the potential for increased oil production is enormous, from new sources off shore and in the Artic and from older sources through improved and more intensive methods of recovery which now are economically attractive. Other traditional energy sources -- coal, nuclear power, and natural gas -- can become increasingly important; and eventually new energy sources can be brought forth by technological and economic incentives. However, for this to happen, we must seek to remove governmental restrictions which now limit the development of our petroleum resources and other energy resources as well. Let's look at some of the potential sources of petroleum supply and estimates of production that show what we could do if certain of these impediments were removed:

1. Naval Petroleum Reserve #1, Elk Hills, California. The production estimate within 60 days is 160,000 barrels per day and within two years could be increased to 267,000 barrels per day.

2. Known structures in the Santa Barbara Channel. Estimated production of 300,000 to 500,000 barrels per day is possible within three years.

3. Naval Petroleum Reserve #4 on the North Slope of Alaska. The potential is enormous and our exploration program must be accelerated in light of the fact that it has an estimated production capability of 2.5 million barrels per day by 1985.

4. Crude oil from selected fields in excess of the Maximum Efficient Rate (MER). Estimated increase in production is 350,000 barrels per day within 90 days although possibly not on a sustainable basis.

5. Secondary and tertiary recovery methods. By stimulating such methods, we can achieve an estimated increase of 1 million barrels per day within three to four years.

6. Alaskan North Slope and increasing capacity of Alaskan pipeline can provide an additional 500,000 to 1,000,000 barrels per day within five years for a total production of 2.5 to 3.0 million barrels per day.

7. Leasing of the Outer Continental Shelf to include Alaskan offshore areas, the Pacific (other than Santa Barbara) Ocean, the Atlantic Ocean and additional areas in the Gulf of Mexico. A single large discovery could produce 1.0 to 1.5 million barrels per day within 8 years.

8. Heavy oil and tar sands are possible within ten years and estimates are that 300,000 to 500,000 barrels per day are possible from this source.

This is illustrative of the potential oil supply -- not to say anything about the other energy sources, if the necessary economic incentives exist. Such moves as deregulation of natural gas, modification of power plant emission standards, and coal research and development would bring on substantial additional supplies of gas and coal. Thus in direct response to the artifically high price and the restricted supply of OPEC oil, we can see a potential flood of energy from other sources, energy that could be forthcoming at costs below the present world oil prices, because the necessary economic incentives should exist at prices below $10.

The only way the present price of OPEC oil can be maintained will be to shut in more and more of their present and planned future capacity with a resulting loss of incomes to these nations and a loss of market share, which to a large extent will not be reversable.

The problems the oil exporting nations will face in allocating their diminishing market among the various members under such a policy will become increasingly severe, particularly as more and more members come to recognize the true costs of this strategy. If a scheme were to be achieved which allocates the cutbacks equally among the OPEC members, countries such as Venezuela, Iran, Indonesia, Algeria, and Nigeria would find they have to make major reductions in their development programs. If the cutbacks were to fall mainly on the shoulders of the reserve rich Arab nations, these countries would pay a heavy price in the permanent loss of the market for their sole resource and hence in the value of their remaining reserves.

<u>When Will Oil Prices Be Reduced</u>

It is in light of these economic factors that I have concluded that there will be no way for the price of oil to be maintained indefinitely at present levels. However, the next question, and perhaps the more important one, is the timing -- when will the price come down? Given the fact that substantial increases in supply cannot be brought in quickly, the price of oil can be maintained for political or in some instances economic reasons for the short term. In determining how long this will be the case, the key factors here are, first, the willingness of consuming nations to make the tough policy decisions needed to accelerate the reduction of their dependence on foreign supplies. The second important factor is whether or not the oil exporting countries will recognize in the near future that it is in their own interest, as well as the interest of the rest of the world, to lower oil prices substantially.

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In our discussions with the OPEC countries, we have sought to explain to them the inevitable economic consequences of their present policies and to demonstrate that an alternative course would be far more in their interest as well as the interests of the rest of the world. By reducing oil prices substantially to a more sustainable market-related level, they can assure themselves of a continued market for their product which will yield the revenues they need for the development and diversification of their economies, which they justly desire. The OPEC nations have vast reserves of oil which can be produced at low cost and sold at market prices which would yield substantial revenues to the producers but which still would be cheaper to the world than many of the higher cost sources of energy the world is now being forced to bring on stream too early. All nations, including the members of the cartel, would benefit from such a pricing and production strategy, which would avoid the serious distortions to the optimal pattern of world resource development that will otherwise occur.

As for the consuming countries, we have no real alternative but to mobilize our resources to reduce as rapidly as possible our reliance on OPEC oil and to ease the difficult financial and economic problems of adjustment we face in the coming years. I am sure that you are all well aware of the basic elements of the U.S. proposals. However, I would like to make just several general observations.

These proposals are based on the fact that it is the price of oil itself, and not its financial repercussions, that is the real source of trouble in the world economy. Thus, we have not been attracted to proposed financing schemes for "recycling" which have been put forward in isolation. Such proposals would simply address the symptoms of the problem and create a false sense of security. In contrast, our proposal links together cooperative energy policies and cooperative financial arrangements so as to provide the mutual insurance essential to protect the functioning of the world economic system, to promote energy independence and thus to lay the foundation for an early reduction in oil prices.

By seeking intergovernmental cooperation in the energy area and pressing forward with our domestic energy program, we are definitely not seeking to move to a government controlled and operated energy industry, domestically or internationally. We are instead attempting to establish the conditions for the maximum return to the private market for an industry which in recent years has experienced further and further incursions by the government sector. A world energy industry consisting of government owned operations, government set prices, and government-to-government supply arrangments is not our objective.

In seeking to develop national and international energy policies under which the private market place can effectively operate, we are aiming at two basic objectives:

First, to attain greater independence for the U.S. and all consuming countries from insecure foreign suppliers of oil.

Second, to mitigate the extreme financial difficulties caused by high oil prices.

It is important to recognize that the price of oil effects these two objectives differently. The higher the price, the greater the economic incentives for energy conservation and for developing additional sources of oil and other energy sources, which brings us closer to our first objective. However, the lower the price of oil and other energy supplies, the less adverse the effect on our economies, which brings us closer to the second objective.

We obviously do not want individually as a nation or as a group of consuming nations to be locked into a future of unnecessarily high cost energy when a lower cost alternative source is available. It seems likely that as we move towards greater and greater independence from imported oil, at some point the costs will rise geometrically and the added increments of independence will not be worth the cost. This trade-off becomes particularly critical when you consider the likelihood that sooner or later the oil exporting nations will seek to regain lost market by undercutting expensive alternative sources of energy. Such a possibility may best be characterized as the "downside risk" problem. 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. Reluctance to commit to the development of energy resources could severly effect our objective of independence, and thus we must consider domestic policies and methods of international cooperation which would provide investors an appropriate degree of protection against such risks. However, above all, we must avoid an unacceptable level of government interference in the private market.

I believe you will all recognize the difficulty of this task. I can assure you our approach will not be one of locking the U.S. into paying $11 a barrel for oil. This would be an extremely costly and inefficient way of developing the necessary energy resources. The energy supplies that can be developed at substantially lower costs, particularly if we remove those unnecessary government restrictions which have suppressed development of supplies in the past, are very sizeable.

Nor should we seek absolute independence from foreign supplies, a goal which may be feasible but too costly for the U.S. and is not feasible for most other countries. Yet in order to secure the necessary financial commitment from private industry, we must give them some degree of assurance. Therefore, some combination of selective policy instruments such as tax incentives, tariffs, or other forms of import protection may be required to assure that certain needed investments in oil and alternative energy projects would remain viable in the face of a likely eventual attempt by the oil producing countries to regain lost markets.

Thus, no matter what actions OPEC now takes with respect to oil prices, the U.S. and other countries must take certain moves to develop alternative sources of energy, and the longer the oil producers delay in moving towards a market-related price for their oil, the more commitments the consuming countries will have to make to develop further alternative sources, and hence the greater the permanent loss to the oil producers of market share.

Closer Relations With The Oil Producers

All of these initiatives are really a response to the economics of oil. They should not, however, be regarded as confrontational. We really have no choice but to act in order to maintain the viability of our economies and the stability of the international financial order. These essential interests are not in conflict with those of the oil exporting countries. We have, and continue to support the very legitimate aspirations of the oil producing nations to accelerate their own economic development, establish their industrial and agricultural bases, and improve the living standards of their peoples. We do believe, however, they can achieve these development objectives on a much more secure basis at a substantially lower level of oil prices.

As evidence of our strong desire to play a cooperative role with the producing countries, we have established Joint Cooperative Commissions with several producers, namely, Saudi Arabia, Iran and Egypt to help them achieve their development objectives; and we have undertaken less formal, though intensive, dialogues with other producing countries as Kuwait, Abu Dhabi, and Qater. Within our government these approaches represent a major effort to provide the oil producing nations with expertise we have achieved in developing the economy of our own country and to help make this expertise adaptable to their development programs. Our private sector is also making a substantial contribution to those efforts.

OPEC Foreign Investments

Another aspect of our cooperation with the oil producers is the important potential role for OPEC capital in the U.S. economy. Clearly under all possible scenarios, the OPEC countries as a group will accumulate very sizeable current account surpluses in the next several years and these funds will be placed in various forms of investments abroad. Through the end of October the flow of OPEC funds into the U.S. this year was roughly $10.5 billion. Thus far most of these funds have flowed into short term bank deposits and government securities, but clearly there is potential for sizeable longer term investments in our private sector. Because of this potential, there has been considerable discussion about U.S. policy towards foreign investment. I beleive we must make sure that this debate does not lead to misunderstandings and misapprehensions on the part of both the American people and potential foreign investors. Because of our ever-increasing capital requirements, we in the United States have a crucial stake in maintaining the free flow of investment. We must not legislate foreigners out of our market, for we will be depriving our economy of an irreplaceable source of needed capital.

The potential for investments in the U.S. by investors from the oil producing countries should not be regarded as a threat, but rather, I believe as an important opportunity. I am sure that I don't have to tell this group that the capital requirements are enormous for expanding and modernizing our productive capacity, developing our domestic energy industry, fulfilling our other raw material needs, and developing our infrastructure.

Capital from the oil producing countries clearly can be put to productive use here and it would be the height of folly to raise artificial barriers preventing our companies, financial intermediaries and governments from having access to this new source of capital funds.

In my discussions with the managers of Arab funds I found them very willing to adhere to our rules and policies. However, they want to know what the rules are. Further they want to enter into relations of real partnership with our firms, and do not want to just lend money. We must recognize that such partnerships could lead to major benefits to the U.S. and western nations. This is not only because they will help satisfy our capital needs, but also because they will build strong ties of interdependence and friendship between the consumer and producer nations.

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In order for this to happen, we must make our policy clear. We must welcome foreign investment, with no special barriers, except in a few well defined areas for reasons of national security or to protect an essential national interest. We must not discriminate against foreign investors in general and we certainly must not discriminate in particular against investors from the oil exporting nations. We are continually reviewing our investment policy, but I foresee no developments that would justify changing significantly our view that investment capital should be free to move to its most productive use in response to free market forces. I would like to add that I strongly reject recent statements suggesting that U.S. restrictions on foreign investment based on national security grounds, call into question, in any way our non-discriminatory policies towards foreign investments.

Once again, in the investment area as with other oil-related issues, we must not let the emotions of the political arena distort the economic realities of the marketplace. Too often when economic issues come to the public's attention, they are cast in terms of extremes with the result that basic freedoms are put in jeopardy. I believe leaders have a particular responsibility to relate policy decisions to the maintenance of freedom. Thus, when that combination of special interest groups, bureaucratic pressures and congressisonal outcries calls for more governmental intervention, we must stand up and express the costs of such policies in terms of sacrifice to human freedom. This applies with particular importance today to oil and oil-related issues. The problems are economically solvable--we can reduce demand; we can increase supply; and the price will come down. However, for any or all of these to happen, we must not allow politics to dominate economics. When you think about it, we really have no choice--either we separate politics from oil or politics will impose greater governmental intrusion on us domestically and more isolation on us internationally.

I believe the hope for the future lies in our ability to forge new and lasting ties between nations. With such ties will come a greater understanding of and commitment to the necessity for international cooperation in building and maintaining a strong and stable world economy, free from the threats which face us today.

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Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE W04-2041

THE DEPARTMENT OF THE TREASURY 1789

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This Wk. 7.172%

Last Wk. 7.524%

Lowest since auction of 10/7/74 – 6.698%

December 9, 1974

for $2.1 billion
ember 12, 1974,
s are as follows:

bills
12, 1975
quivalent nnual Rate
6.870
6.923
6.911 1/

182

This Wk. 6.911%

Last Wk. 7.564%

Lowest since auction of 2/15/74 – 6.787%

llotted 40%.
llotted 55%.

ISTRICTS:

	Accepted
00	$ 19,620,000
00	1,842,125,000
00	14,345,000
00	27,905,000
00	21,040,000
00	21,890,000
00	56,110,000
00	18,815,000
00	5,665,000
00	33,195,000
00	13,350,000
00	27,105,000
00	$2,101,165,000c/

average price.
average price.

1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 7.41% for the 13-week bills, and 7.26% for the 26-week bills.

Department of the TREASURY NEWS
WASHING[TON]

FOR RELEASE 6:30 P.M. December 9, 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 December 12, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 13, 1975		26-week bills maturing June 12, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.205	7.101%	96.527 a/	6.870
Low	98.177	7.212%	96.500	6.923
Average	98.187	7.172% 1/	96.506	6.911 1/

a/ Excepting 1 tender of $460,000

Tenders at the low price for the 13-week bills were allotted 40%.
Tenders at the low price for the 26-week bills were allotted 55%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 57,220,000	$ 37,775,000	$ 31,430,000	$ 19,620,000
New York	4,356,165,000	2,261,435,000	3,149,475,000	1,842,125,000
Philadelphia	43,665,000	43,560,000	24,780,000	14,345,000
Cleveland	89,805,000	57,620,000	30,260,000	27,905,000
Richmond	48,850,000	42,300,000	32,040,000	21,040,000
Atlanta	42,945,000	38,245,000	24,460,000	21,890,000
Chicago	298,200,000	82,315,000	231,465,000	56,110,000
St. Louis	58,660,000	32,910,000	52,015,000	18,815,000
Minneapolis	16,365,000	5,865,000	11,885,000	5,665,000
Kansas City	41,745,000	36,765,000	36,215,000	33,195,000
Dallas	115,735,000	33,735,000	23,350,000	13,350,000
San Francisco	303,925,000	128,050,000	165,125,000	27,105,000
TOTALS	$5,473,280,000	$2,800,575,000b/	$3,812,500,000	$2,101,165,000c/

b/Includes $565,640,000 noncompetitive tenders accepted at average price.
c/Includes $284,155,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 7.41% for the 13-week bills, and 7.26% for the 26-week bills.

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

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FOR IMMEDIATE RELEASE DECEMBER 10, 1974

NEW METRIC STANDARDS
FOR MAJOR U. S. INDUSTRY

Washington--Secretary of the Treasury William E. Simon announced today that beginning January 1, 1979 domestic and imported wines must be bottled in seven standard metric sizes making the alcoholic beverage industry the first major U. S. industry to convert to metrication.

The Secretary noted that the new regulations, promulgated by Treasury's Bureau of Alcohol, Tobacco and Firearms (ATF), will benefit both American consumers and the alcoholic beverage industry.

The new regulations to be published in December also will specify the number of units per shipping container. This is expected to provide easier handling, accounting and tax collection.

The seven new metric sizes are 3.00 liters (101 oz.), 1.50 liters (50.7 oz.), 1.00 liter (33.8 oz.), 750 milliliters (25.4 oz.), 375 milliliters (12.7 oz.), 187 milliliters (6.3 oz.), and 100 milliliters (3.4 oz.).

Simon said the wine metrication regulations are the precursors of distilled spirits metrication proposals expected to be published by ATF in a few weeks. ATF, which is a part of the Treasury Department, administers Federal laws relating to alcohol products.

The conversion to metric bottles will reduce the number of domestic wine bottle sizes from 16 to seven, and the number of imported wine bottle sizes from about 27 to seven, the Secretary noted.

"Consequently, this will be a big help to consumers who will have to make a choice from only seven sizes," Simon said. "The standard sizes should facilitate buyer comparison, and unit pricing of wines by retail stores. In addition, the regulations will require bottlers to state the net content of the bottle in metric measurement with the equivalent volume in U. S. measure to be shown in fluid ounces, accurate to the nearest one-tenth of an ounce, if the conversaion is done before January 1, 1979."

The original proposal also called for a two-year conversion period, but in the final regulations this was extended to four years, to January 1, 1979.

"This was done as a convenience to members of the glass bottling industries as well as importers who requested the extended time for conversion," Simon said. "The Treasury Department recognizes the need for ample time to consume existing bottle inventories in order to reduce the economic impact of metrication."

A wine bottler may convert to metrication at any time before the mandatory date, Simon noted, but once the conversion is made the company may not revert to the old system.

Other provisions of the regulations:

--Since much wine is aged in the bottle, any wine bottled before January 1, 1979, under conditions which do not meet the new conversion requirements, can be imported into the U. S. if the date of bottling is certified by a duly authorized official of the producing nation.

--The number of bottles of each size which may be packed in a case are specified. "This uniform packing will benefit every person who handles the wine in the distribution chain, from manufacturer to retailer," Simon noted. "In addition, it will facilitate revenue collection by Federal and state tax officials."

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

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FOR IMMEDIATE RELEASE December 10, 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 $4,600,000,000 , or thereabouts, to be issued December 19, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,600,000,000, or thereabouts, representing an additional amount of bills dated September 19, 1974, and to mature March 20, 1975 (CUSIP No. 912793 WA0), originally issued in the amount of $1,801,895,000, the additional and original bills to be freely interchangeable.

182-day bills (to maturity date) to be issued December 19, 1974, in the amount of $2,000,000,000, or thereabouts, representing an additional amount of bills dated November 4, 1974, to mature June 19, 1975 (CUSIP No. 912793 WZ5), originally issued in the amount of $1,500,835,000, the additional and original bills to be freely interchangeable.

The bills will be issued for cash and in exchange for Treasury bills maturing December 19, 1974, outstanding in the amount of $4,604,420,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,737,090,000. 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, Monday, December 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

(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 December 19, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing December 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.

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REMARKS BY THE HONORABLE JOHN M. PORGES
U.S. EXECUTIVE DIRECTOR INTER-AMERICAN DEVELOPMENT BANK
BEFORE THE COMMONWEALTH CLUB
SAN FRANCISCO, CALIFORNIA, DECEMBER 9, 1974, 12 P.M.

I am delighted to be in San Francisco 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 which amount to 16 per cent and 24 per cent of total cumulative lending respectively, 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 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 the social sector such as in 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 been a persistent 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 also 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, although clearly this will not be done at less than prevailing world prices.

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.

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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 Finance Committee has now reported out a bill for the Trade Reform Act. The House version includes authority for the conduct of the next round of trade negotiations. One of its sections also allows for 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. In any event, conference will probably be necessary to resolve differences when the Senate acts on the Committee's recommendations. 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.

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, could conceivably 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 may very well 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 1973, the book value of holdings was $18.5 million. Much of it is concentrated in specific countries and economic sectors. Four countries -- Venezuela, Brazil, Mexico and Argentina -- accounted for more than 50 per cent of the total. Overall, the manufacturing sector in 1973 accounted for 35 per cent of total U.S. investment in the region, compared to 29 per cent in 1966. In Mexico and Brazil, this sectoral concentration is particularly high, reaching 70 per cent.

In present circumstances of radical change, there are many possibilities for the disruption of regular patterns of trade and investment. The question of international liquidity has come again to the fore. How will the industrialized oil user countries and, for that matter, non-OPEC developing countries, find the additional money needed to pay their high oil bills? How will the oil-producing countries use the additional resources they gain? These two questions are circular ones, of course; and in some part at least, the answers are becoming apparent. The oil producers are conservative and cautious investors. For the most part, they have limited themselves to short-term deposits and government or government-guaranteed securities in the United States and in Western Europe. They have, however, made important equity investments such as Krupp and Damlier Benz in Europe and some minor purchases in the United States. They have also established funds for financing development in the poorer countries of the world. Since January, oil producing countries have loaned the international development banks (IBRD, IDB, ADB) more than $1.1 billion, all of it on nearly commercial terms.

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 new inputs of financial resources to supplement what has been provided by the United States and Canada. Next week, in fact, I will travel to Madrid to participate in ceremonies providing for Bank membership of 12 countries of Western Europe and Japan. Hopefully, the necessary legislative actions will be taken to permit seating of these countries by 1976. At the same time, the United States has indicated its desire to continue its present level of support.

Total resources of the Bank 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 here-to-fore non-member countries in Europe and Japan, who have given the Bank access to their capital markets. With the capital market conditions prevailing in the world today, that support has become difficult to obtain at what we consider reasonable rates. 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.

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In export financing, the Bank has authorized some $100 million to help finance intraregional exports of capital goods. And, in the field 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 as well as from our elected representatives.

I shall be pleased to attempt to answer any questions you may have.

Thank you for your attention.

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REMARKS BY THE HONORABLE JOHN M. PORGES
U.S. EXECUTIVE DIRECTOR, INTER-AMERICAN DEVELOPMENT BANK,
BEFORE THE WORLD AFFAIRS COUNCIL OF SAN DIEGO,
SAN DIEGO, CALIFORNIA, DECEMBER 10, 1974

I am happy to have this opportunity to talk with the World Affairs Council of San Diego. Earlier today, I spoke to the Kiwanis Club about the prospects for economic progress in Latin America and the role of the Inter-American Development Bank. Tonight, I would like to consider with you several aspects of the oil situation, including a statement of the U.S. Government position, and then focus on the way this situation affects trade and foreign aid legislation and the work of international lending institutions like the Inter-American Development Bank.

The wide-ranging and serious effects of actions taken by the oil-producing and exporting countries are now very clear. These actions taken have included an outright embargo last fall, a more than four-fold increase in price levels and finally current cutbacks in production which are designed to maintain artificially high price levels. We all can remember long lines that formed at gas stations last winter as a result of the embargo. Most authorities do not think that we will have to face anything like that experience again this winter. For the moment, we appear to have access adequate to our needs. We still do have to face, however, the very serious effects of that four-fold increase in price level. Before the first of the price increases last fall, the bench price of Saudi Arabian crude was less that $2 per barrel. Today it is approximately $10. I do not have to belabor with you what this means to all of us as individuals. We pay more not only for petroleum products but also for a broad spectrum of other goods and services whose prices have been necessarily increased. There are calculations which suggest that as much as one-third of the 20 per cent increase in wholesale prices from a year ago can be attributed to the rise of petroleum prices.

I would like, instead, to center attention on national and international implications. This year alone, OPEC countries will earn $90 billion in oil export earnings. They expect to earn more than $110 billion in 1975. These numbers strain our ability to fully comprehend. More concretely, the problem of how to handle the flow of this amount of money places great strain on the international financial structure. We have a much-used saying in international finance that one country's surplus is another country's deficit. All OPEC countries taken together this year can only be expected to spend $35 billion on imports of goods and services from other countries. This means they will have a trade balance surplus as of the end of the year of around $60 billion. If the deficit countries cannot pay for their oil with the export of other goods and services, we have to ask how they will be able to do so. The answer to this question lies in what the exporting countries do with their surpluses. In a word, I am talking about recycling. Since only so much can be used for immediate imports of goods and services, there must be an offsetting flow of investment funds from the OPEC countries. A/

A/ Estimates as of December 1974

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The OPEC countries are now the creditor countries of the world. How they handle their investments will have enormous significance to the rest of us. This new status puts a heavy responsibility on them to act with prudence and care. Thus far, all reports are that they have been prudent and cautious investors, emphasizing those opportunities which provide for liquidity and safety. I want to speak more about the investment situation later on but for now I would like to turn to what U.S. policy has been as developed by Secretary Simon and Secretary Kissinger.

In a speech in New York to the National Foreign Trade Convention on November 18, Secretary Simon spoke of the challenge from the OPEC bloc. He said the United States must seek a new unity of purpose with other consuming countries while at the same time we have to try to settle our differences with the producing countries through mutual understanding and cooperation.

In two separate speeches this fall, Secretary Simon and Secretary Kissinger have enunciated a position for the United States. The substance of this position is as follows:

- The price of the oil and not its financial repercussions is the real source of trouble in the world economy;
- Major consuming countries should work together to achieve significant reductions in their imports of OPEC oil;

- They should cooperate to increase energy production within their own nations;
- IMF resources should be more fully mobilized for all member nations;
- A new financial facility should be set up in association with OECD A/ to provide stand-by support for those countries in economic trouble;
- Consideration should be given to a special IMF trust fund to help developing countries;
- And serious preparations should be made for dialogue between consumer and producer groups.

Let us examine more closely the implications of this position. First, so far as reducing oil imports is concerned, in his economic message of November 8, President Ford announced a U.S. program to reduce imports by one million barrels a day. The French have placed an absolute limit on their oil imports to that level which could be financed with 1974 oil payments. The British have adopted new taxes on petroleum in another effort to relieve their oil imports. Consuming nations also have to cooperate in conservation programs and in exploring how other sources of energy production can be substituted for petroleum. The newly-established International Energy Agency offers one forum to find ways to move toward these objectives. Among other things, we need to eliminate barriers to conservation and increase production -- in the United States as well as in other countries.

A/ Organization for Economic Cooperation and Development

Secondly, with regard to financial support, in most instances existing private and public agencies are now coping adequately with channeling the flow of investment funds from OPEC countries. Yet, as I indicated at the beginning of my remarks, there has been additional effort and strain on many of our institutions. Secretary Kissinger has called for the setting up of another facility, therefore, to help industrialized oil user countries which may need assistance under particular circumstances. As a result, the United States is recommending the creation of a supplemental loan facility which would be associated with the Organization for Economic Cooperation and Development (OECD). In the Government's view this facility would serve as a backstop or so-called "safety net." The general principles underlying its use would be as follows:

- Participation to be linked with cooperation on reduction of oil imports;

- Member countries to follow responsible adjustment policies and avoid "begger thy neighbor" approach;

- Magnitude of fund to be on order of $25 billion with possible additional resources if needed in future years;

- Fund to supplement and not replace private market and other channels;

- Weighted voting system based on participation to prevail;

- Assistance to be provided on basis of general economic position;

- Credit risk to be shared on basis of percentage participation.

Thirdly, the United States is especially concerned about the needs of developing countries. Many of them have been extremely hard hit by the rise in oil prices. Since the developing countries depend on capital transfers to support their programs for economic progress, they naturally stand to benefit from the maintenance of orderly conditions in the world's capital markets. This is what we are trying to achieve by the supplemental financial fund I have just described. In addition, the developing countries are eligible for stand-by assistance from the International Monetary Fund. The United States and other developed donors have been diverting their bilateral concessional assistance toward these countries and are calling on the international lending institutions, such as the Inter-American Development Bank, to do the same. Thought is also being given to the establishment of a special trust fund -- possibly financed from the sale of gold holdings by the IMF to provide other funds on concessional terms. A special committee on development has been established and we hope they will look into this suggestion.

It goes almost without saying that the oil-producing countries have assumed a special obligation by raising their prices to help other developing countries, particularly those who have been most severely affected. Let us consider what has been done through the international lending institutions -- the World Bank, the Asian Development Bank, and my own organization, the Inter-American Development Bank. Since the first of this year, the oil producers have purchased direct bond offerings from the three institutions totalling more than $1.1 billion, and other offerings are under active consideration. This figure does not include other bond operations of previous years in Kuwait and Saudi Arabia. Borrowing activity of this kind permits continuation and expansion of ordinary capital programs, i.e., lending at near commercial rates.

I would also hope, in the near future, for OPEC resources on concessional terms to the international financial institutions. This action would permit the lending institutions to make more loans at lower interest rates and with longer maturities -- conditions especially appropriate for those developing countries most severely affected by the oil price increase. Although a number of special investment funds have been established by OPEC countries, it is still not entirely clear what their portfolio policies will be and how money will be made available for economic and social development purposes in the needy countries. Thus far, commitments of $7.0 billion have been spoken of, of which $6.5 billion has been promised on concessional terms. Although most of these commitments are directed to non-oil producing Arab states, $1.3 billion has been set aside for India and Pakistan.

I indicated earlier that the oil producers were being cautious and prudent investors. Let me expand upon that thought now. It is estimated that since the first of this year approximately $45.0 billion has been invested abroad by OPEC countries, predominently in the United States, Japan, and stable countries of Western Europe. It has been in the form of short term deposits at mostly large and reputable banks or in marketable government or government guaranteed securities. There have also been some very significant equity investments in Germany -- Damlier Benz and Krupp. In the United States, there have been for the most part relatively minor purchases. I should mention, however, that Saudi Arabian business interests, who already owned controlling interests in two San Francisco banks, are now purchasing a one-third interest in a third bank, the First National Bank of San José.

I have spoken tonight of the OPEC countries in terms of their being a bloc. They are not homogeneous, however, and vary greatly among themselves both with respect to the wealth of their oil resources and their general economic and social conditions. For these reasons, their individual investment objectives and strategies will necessarily be different. At one pole are the Saudi Arabians, the Kuwaitians and other Persian Gulf producers. Their earnings are so enormous and so much beyond their own domestic needs that they are clearly slated to become major capital exporters over the long term. At the other extreme, are countries such as Indonesia, Ecuador and Nigeria. They are, of course, very much better off now than they were in the past. There has been a dramatic improvement in their economic prospects. However, their general condition -- in terms of per capita income and other basic economic indicators -- is such that

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they can apply oil earnings to their own economic development. Although large temporary increases in foreign exchange holdings are being experienced, they are expected over the intermediate and long term to materially increase imports from industrial countries for domestic consumption and investment needs. In between, are countries such as Venezuela and Iran which can absorb their increased oil earnings only over the long and farther end of the medium term. In the meantime, they are looking for suitable investments abroad for the short and near medium term. Ultimately, however, they are not expected to become major capital exporters over the long term.

Taking these basic differences into account, I think the public and private agencies of the industrialized countries can encourage OPEC investors to diversify their holdings into more institutions and to lengthen their maturities. Equity holdings are clearly appropriate in that they can benefit investors by provisions for technology transfer and training, real requirements in all of the OPEC countries. In addition, the oil producers should be pressed to provide larger assistance to other developing countries.

This whole matter of economic assistance is very directly related to the progress of Foreign Assistance legislation now pending in our own Congress. The Senate has recently passed an authorization bill for 1975 and the House of Representatives has begun floor consideration of its version today. While margins of passage are narrower this year, the Administration is happy with the bipartisan character of support and hopeful of getting a final bill out of the Congress. Once authorization has been approved, we can then go on to specific appropriations for fiscal year 1975.

Another legislative matter of over-riding importance is passage of a Trade Reform Act. Obviously, trade and investment are the key factors in developing satisfactory solutions to the set of problems I have outlined tonight. Secretary Simon has indicated that upcoming trade negotiations, for which we must have a legislative mandate, will turn to the question of insuring access to food and raw material supplies. For this purpose we need a strong Act without complicating amendments. The Senate Finance Committee has just reported out its version of the Trade Bill and I understand the beginning of floor action was contemplated for today.

By way of ending, I would like to comment on how inter-related many of the problems of our current economic situation have become. Compared with other industrial nations, foreign trade counts for a small percentage of our gross national product. The importance of small percentages, however, has been demonstrated by the rise in petroleum prices. In similar fashion, what we are able to achieve in trade and foreign assistance legislation, particularly our support for international financial institutions, may well determine our success with current international economic problems.

Thank you.

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REMARKS BY THE HONORABLE JOHN M. PORGES
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BEFORE THE KIWANIS CLUB LUNCHEON
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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, could conceivably 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 may very well 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 1973, the book value of holdings was $18.5 million. Much of it is concentrated in specific countries and economic sectors. Four countries -- Venezuela, Brazil, Mexico and Argentina -- accounted for more than 50 per cent of the total. Overall, the manufacturing sector in 1973 accounted for 35 per cent of total U.S. investment in the region, compared to 29 per cent in 1966. In Mexico and Brazil, this sectoral concentration is particularly high, reaching 70 per cent.

In present circumstances of radical change, there are many possibilities for the disruption of regular patterns of trade and investment. The question of international liquidity has come again to the fore. How will the industrialized oil user countries and, for that matter, non-OPEC developing countries, find the additional money needed to pay their high oil bills? How will the oil-producing countries use the additional resources they gain? These two questions are circular ones, of course; and in some part at least, the answers are becoming apparent. The oil producers are conservative and cautious investors. For the most part, they have limited themselves to short-term deposits and government or government-guaranteed securities in the United States and in Western Europe. They have, however, made important equity investments such as Krupp and Damlier Benz in Europe and some minor purchases in the United States. They have also established funds for financing development in the poorer countries of the world. Since January, oil producing countries have loaned the international development banks (IBRD, IDB, ADB) more than $1.1 billion, all of it on nearly commercial terms.

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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 new inputs of financial resources to supplement what has been provided by the United States and Canada. Next week, in fact, I will travel to Madrid to participate in ceremonies providing for Bank membership of 12 countries of Western Europe and Japan. Hopefully, the necessary legislative actions will be taken to permit seating of these countries by 1976. At the same time, the United States has indicated its desire to continue its present level of support.

Total resources of the Bank 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 here-to-fore non-member countries in Europe and Japan, who have given the Bank access to their capital markets. With the capital market conditions prevailing in the world today, that support has become difficult to obtain at what we consider reasonable rates. 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.

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In export financing, the Bank has authorized some $100 million to help finance intraregional exports of capital goods. And, in the field 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 as well as from our elected representatives.

I shall be pleased to attempt to answer any questions you may have.

Thank you for your attention.

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federal financing bank NEWS
WASHINGTON, D.C. 20220

Press inquiries: 202-964-2615

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FOR IMMEDIATE RELEASE December 11, 1974

SUMMARY OF LENDING ACTIVITY

NOVEMBER 25 - DECEMBER 6, 1974

Federal Financing Bank lending activity for the period November 25 through December 6 was as follows:

-- On November 25, the Bank closed a $4 million, 17-year loan at 8.55% to Riverton Properties, Inc., a "new community" in New York. This loan, which is guaranteed by the Department of Housing and Urban Development, is part of an $11 million commitment to purchase notes from Riverton.

-- On November 26, the Bank purchased $500 million of 5-year Certificates of Beneficial Ownership from the Farmers Home Administration at an interest rate of 7.95% on an annual basis.

-- In the last two weeks, Amtrak, the National Railroad Passenger Corporation, has made two drawings against the $100 million commitment signed October 11, 1974. Amtrak borrowed $1 million at an interest rate of 8.167% on November 27, and $16 million on December 6 at 8.004%.

-- On November 28, the Bank purchased $75 million of 91-day notes from the Tennessee Valley Authority at 7.84%.

-- On December 3, the Bank made a $100 million 91-day loan to the Student Loan Marketing Association (Sallie Mae) to refund a maturing $125 million note held by the FFB. The interest rate on this loan is 8.03%.

-- On December 4, Jack F. Bennett, President of the Federal Financing Bank, signed a Supplemental Loan Commitment Agreement with the Rural Electrification Administration, Department of Agriculture. The new agreement increases the FFB's commitment to REA from $1.5 billion to $3.5 billion. Under the agreement, loans will be made to rural electrification and telephone systems for periods up to 34 years. REA will guarantee the loans and act as agent for the Federal Financing Bank. The rate of interest on each drawdown will be determined by the Federal Financing Bank at the time of the advance.

Federal Financing Bank loans outstanding presently total approximately $4.2 billion. Unfilled commitments total $3.9 billion.

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

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FOR IMMEDIATE RELEASE December 11, 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 tuners (of the type used in consumer electronic products) from Japan with respect to Matsushita Electric Industrial Company, Ltd. and Matsushita Electric Trading Company, Ltd. of Japan. Notice of this decision will be published in the Federal Register of December 12, 1974.

The Federal Register notice reads in part:

> Sales of tuners (of the type used in consumer electronic products) by Matsushita Electric Industrial Company, Ltd. and Matsushita Electric Trading Company, Ltd., since December 1970 have been at not less than fair value, and assurances have been given that future sales of such tuners to the United States will not be made at less than fair value.
>
> Accordingly, notice is hereby given that the Department of the Treasury intends to modify the finding of dumping with respect to tuners... from Japan to exclude the tuners produced and sold by Matsushita Electric Industrial Co., Ltd. and Matsushita Electric Trading Co., Ltd., both of Osaka, Japan, from the finding.

(OVER)

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 July 1974, imports of tuners from Japan were valued at roughly $6 million.

# # #

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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
December 6, 1974

For information call:
(202) 456-6757

THE COUNCIL ON WAGE AND PRICE STABILITY MEETS

The Council on Wage and Price Stability met this morning to be brought up to date on Council staff activities, meet the newly appointed Assistant Directors and General Counsel and discuss the future actions of the Council staff.

The Council also approved the recommendations contained in the attached Council staff report on Shelf Inventory Repricing practices.

Attachment

CWPS-14

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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
Friday, December 6, 1974

For information call:
(202) 456-6757

STAFF REPORT ON THE SHELF INVENTORY REPRICING HEARING HELD BY THE COUNCIL ON WAGE AND PRICE STABILITY AND THE OFFICE OF CONSUMER AFFAIRS

On November 13, the Council on Wage and Price Stability and the Office of Consumer Affairs held a public hearing on the issue of repricing of shelf inventory in retail stores. This report summarizes the major points made during the hearing and in other information submitted for the record. The report also presents the recommendations of the Council staff and the Office of Consumer Affairs on this issue.

BACKGROUND

The repricing of shelf inventory is a common business practice used when retailers are notified of price increases by suppliers. This practice has received a great deal of recent attention since rising costs in this present period of inflation have caused price changes to occur much more frequently than in the past. As a result, two or more prices may appear on the same item.

Shelf inventory repricing is a major irritant to consumers and has caused widespread dissatisfaction and anger. Both the Council and the Office of Consumer Affairs have received hundreds of letters and telephone calls complaining about the practice. Many other consumers have voiced their objections to the President and their representatives in Congress.

CWPS-14

Consumers, not altogether correctly, regard the marking of successively higher prices on a package as prima facie evidence of profiteering not justified by costs. The Council on Wage and Price Stability and the Office of Consumer Affairs (OCA) recognize that policies to eliminate the repricing of shelf inventory deal with symptoms of inflation and not with causes. Nevertheless, it can be valuable to relieve symptoms, while pursuing more fundamental policies to fight inflation.

A number of major food chains have adopted a policy of no upward shelf repricing. Safeway was the first major supermarket chain to do so in July and several others have followed suit in recent months. Many others have not, however. Many bills have been introduced into the Congress to prohibit the repricing of shelf inventory in retail stores. Several local governments have passed ordinances to the same effect, including two very large ones (Nassau County, New York, and Dade County, Florida).

The Council and OCA held the public hearing on November 13 to investigate the benefits of adopting such a policy and the reasons why it has not been adopted more widely. Witnesses were heard from retail food and retail hardware industries, consumer organizations and local governments (see attached witness list). All three of the retail food chains that testified have adopted a policy of not repricing shelf inventory. However, the testimony presented was balanced in that both the pros and cons of adopting a no repricing policy were discussed fully.

MAJOR FINDINGS

1. There was a general consensus that the practice of repricing shelf inventory is a major consumer irritant and takes it toll psychologically. Consumers do not understand the economics of the practice and view it as a way to reap unfair, easy profits at their expense. Reasonably so, a consumer feels personally abused wheh he or she is forced to buy an item that has been repriced, particularly when the different prices are stamped side by side or on top of each other. The firms which have adopted a no repricing policy have done so in response to consumer complaints.

2. There are a number of benefits which can be derived from adopting a no repricing policy, as reported by the various witnesses.

- Consumer reaction to this policy where it has been implemented has been very strong and favorable.

- Shelf stocks of merchandise will be fresher. Under the no repricing policy, retail stores must rotate merchandise more frequently so that the older, lower-priced product is moved to the front of the shelf.

- Net savings of labor can be realized from this policy. Two of the three retail food chains (Acme and Finast) reported that the labor saved in not remarking prices of merchandise already on the shelves exceeds the extra labor used for the more frequent rotation of shelf stock.

- Consumers are alerted when a price is increased and can buy additional quantities at the lower price.

3. At the same time, there are a number of disadvantages of a no repricing policy which were cited at the hearing.

   - Adoption of the policy caused labor and operational problems in achieving full shelf stocking and proper product rotation.

   - Problems were also encountered in maintaining accurate retail pricing. Under a no repricing policy, there may be two or more different prices on the same items stocked on the shelves, and verification is often necessary to determine the correct price at checkout counters.

   - Other problems have been encountered with maintaining unit pricing and with pre-priced products delivered directly to retail stores by suppliers.

   - Some inventory appreciation for shelf stock is lost, which reduces revenues. One retail food chain (Pathmark) reported that the adoption of the no repricing policy reduced revenues by 0.3% of sales, which represented more than one-half of the firm's rate of net return realized in 1973.

4. Evidence was presented that policies against repricing would be impractical for retail stores such as hardware stores whose inventory turnover is much lower than that of large food stores. In this connection, the selling price of merchandise reflects more than costs of goods purchased.

It also reflects outlays for wages, rents, taxes, utilities and interest, all of which can be subject to substantial increases during the shelf life of low turnover durable merchandise.

5. Serious doubt was expressed that there are any real savings to consumers under a no repricing policy. The revenues lost from not repricing shelf inventory will be made up by other changes in retail pricing policies in order to maintain normal gross margins. However, to the extent that labor savings are realized, some permanent reduction in prices can result.

6. Representatives of food retailers, consumer organizations, and one representative of a large city government cautioned that present policies against repricing should still be regarded as experimental. There has not been enough experience to produce firm evidence on cost savings and consumer response. Certain problems require further work, such as the best way to display multiple unit prices on shelves.

7. The majority of witnesses recommended against the adoption of Federal or local legislation. They believed that voluntary action by retailers in response to consumer pressure is the best approach. Federal or local legislation could create inequities among retailers, endanger the use of unit pricing and cause severe administrative problems with very minimal savings, if any, to the consumer.

POSSIBLE ALTERNATIVE SOLUTIONS

Recently, food chains such as A&P, Kroger and Giant, who have continued to reprice shelf inventory, have announced actions that appear to be offered as alternative solutions to the shelf repricing problem. A key element in the A&P action is an early warning system for price increases whereby shoppers are informed through a weekly list or shelf tags that the prices of certain items are due to go up. This will enable the consumer to buy additional quantities at the old price. While repricing of shelf inventory can still occur with this alternative policy, the consumer does know the increase is coming and this knowledge could reduce the irritating impact of purchasing a repriced item. A&P has been joined by Kroger and Giant in freezing prices of certain non-perishable items, including house brands, which also allows the shopper to know with certainty that he or she may purchase these items at a stable price for a specified period of time.

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EXECUTIVE OFFICE OF THE PRESIDENT

COUNCIL ON WAGE AND PRICE STABILITY

726 JACKSON PLACE, N.W.

WASHINGTON, D.C. 20506

ATTACHMENT 1

WITNESS LIST FOR HEARING ON SHELF INVENTORY REPRICING PRACTICES

John Whitney
President, Pathmark Stores

Ellen Zawel
President, National Consumers Congress

Elinor Guggenheimer
Commissioner, Department of Consumer Affairs
New York City, New York

Peter McGoldrick
President, Acme Markets

Alan Dimond
Assistant County Attorney
Dade County, Florida

Milton Segel
Vice President, First National Stores Inc.

Sheldon I. London
Director, Government Relations
National Retail Hardware Association

Karen Wouters
Publisher, Grocery Guide and Consumer
Affairs Committee, Americans for
Democratic Action

RECOMMENDATIONS

1. Since the bulk of the evidence suggests that policies against the repricing of shelf inventory in large food stores reduce consumer irritation, lower labor costs, and promote the proper rotation of stock, we strongly urge those food chains that have not already done so to adopt policies against repricing or to adopt alternative policies to accomplish the same effect.

2. Since policies against repricing are still in an experimental phase, we do not advocate the passage of Federal legislation or of new local ordinances to make such policies mandatory. Wider adoption of these policies or alternative policies on a voluntary basis would make such legislation unnecessary. Where sweeping local ordinances already exist, we recommend that they be revised to exclude branches of retailing with low turnover of inventory.

Attachment

CWPS-14

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

Today 6.625%

Last Month 7.362%

FOR RELEASE , 1974

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December t the
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Lowest since auction of 2/6/74

RANGE OF 1,915,000)

High
Low
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Tenders at the low price were allotted 68%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 23,180,000	$ 9,180,000
New York	3,239,085,000	1,827,185,000
Philadelphia	27,615,000	7,615,000
Cleveland	30,790,000	19,150,000
Richmond	12,915,000	9,595,000
Atlanta	8,270,000	8,270,000
Chicago	194,195,000	52,395,000
St. Louis	48,020,000	22,020,000
Minneapolis	13,495,000	9,995,000
Kansas City	8,305,000	4,305,000
Dallas	18,210,000	3,210,000
San Francisco	123,555,000	27,155,000
TOTALS	$3,747,635,000	$2,000,075,000 2/

1/ This is on a bank-discount basis. The equivalent coupon-issue yield is 7.07%.

2/ Includes $50,550,000 noncompetitive tenders accepted at the average price.

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WASHINGTON, D.C. 2

THE DEPARTMENT OF THE TREASURY 1789

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FOR RELEASE 6:30 P.M. December 11, 1974

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $ 2.0 billion of 52-week Treasury bills to be dated December 17, 1974, and to mature December 16, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 2 tenders totaling $1,915,000)

High	-	93.379	Equivalent annual rate	6.548%
Low	-	93.248	Equivalent annual rate	6.678%
Average	-	93.301	Equivalent annual rate	6.625% 1/

Tenders at the low price were allotted 68%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted
Boston	$ 23,180,000	$ 9,180,000
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Kansas City	8,305,000	4,305,000
Dallas	18,210,000	3,210,000
San Francisco	123,555,000	27,155,000
TOTALS	$3,747,635,000	$2,000,075,000 2/

1/ This is on a bank-discount basis. The equivalent coupon-issue yield is 7.07%.

2/ Includes $ 50,550,000 noncompetitive tenders accepted at the average price.

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

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FOR IMMEDIATE RELEASE

STATEMENT BY THE HONORABLE GERALD L. PARSKY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C.
DECEMBER 11, 1974, 2:00 P.M. EST

It is a pleasure to be here today to discuss the issues facing the securities industry and the government as we consider the transition from fixed to competitive brokerage rates. Our capital market system, commanding the confidence of investors by providing access to market information, investment advice and liquidity is crucial to the ability of American industry to raise investment capital.

An important part of a strong securities market is its pricing structure for brokerage firms. A properly designed, price competitive environment for securities transactions will help restore investor confidence in our markets and raise the level of both investor and issuer participation. Artificial rates charged to the investing public -- rates which do not reflect a firm's actual costs and demand for its services -- can only act to divert needed public equity investment away from our securities markets to less favored investment options. We have learned from our experience with other regulated industries that imposed fixed rates over time engender inefficient industry operations, force the consumer to pay more than he should, and consequently act to the long-term detriment of both investors and financial intermediaries, as well as to our whole economy. Indeed, there is no public policy in the economic area stronger than the policy in favor of price competition. Deviations from such a policy, as Secretary Simon has noted in commenting upon the regulatory structure in the transportation area, are highly suspect and strongly disfavored. Our position on the negotiated rate question is consistent with this overriding national policy.

We believe that competitive commission rates will benefit both the financial community and the investing public by permitting the market to establish the cost of securities transactions, thus avoiding the need to pursue the long administrative process now required to adjust rates to the reality of costs. In the long term we expect that competitive rates will prove beneficial for all parties involved.

At the same time, all of us recognize the need to permit the securities industry to adjust to rate competition in an orderly manner. In our opinion the Commission has recognized this need by providing for a gradual transition to a competitive rate structure over the past three years. The Commission announced on September 11, 1973 that it would require the unfixing of commission rates on May 1, 1975, if

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the exchanges did not voluntarily adopt rules achieving that result before that date. Thus, the industry has already had over a year in which to prepare for the final transition to fully competitive rates.

Nevertheless, in adopting such a policy and deciding on the proper timing, it is important to consider several major problems.

First, whether commission rate competition will drive many firms -- especially the small regionals -- out of business. Apart from the undesirability per se of creating such hardship, the loss of such firms would deny the marketplace the diversity of investment opinion which such firms (and their customers) provide and would impair the existing distribution system for new issues.

Second, whether due to legal problems posed if fiduciaries use the commission mechanism to pay for non-brokerage services such as research, competitive rates will drive many institution-oriented firms out of this business. The loss of such firms would lessen both the quantity and quality of information available to investors.

Third, whether the existence of our exchanges, and the auction markets they provide, will be jeopardized by competitive rates (especially intramember rates) since under such a system many firms will no longer find it necessary or desirable to retain exchange membership. With a decline of exchange membership, specialists and floor brokers

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which provide services to the auction market will reduce these services or leave the market entirely, causing the collapse of our auction market system.

These concerns must be considered and reviewed as the Commission determines the manner and extent to which competitive rates will be implemented. We would be most concerned if competitive rates would have the effect of eroding the network of small retail firms. By bringing to the marketplace a diversity of investment opinion, such firms add substantially to the liquidity of the market. Moreover, this same access to individual investors is also an important element of the new issue underwriting and distribution process. Especially with respect to underwritings of securities of small and medium-sized issuers, the regional firm provides a natural adjunct to the money center investment bankers.

In this regard, we must ask why competitive public rates would harm the small retail firm. Many contend that few economies of scale in retail brokerage exist and that the large wire houses, with their multiplicity of branch operations and their heavy investment in data processing, must support a heavy overhead burden. If this is the case, it would only be the small regional firm which was grossly inefficient, thus requiring an artificially high profit margin, that would be threatened by competitive rates. We certainly are not aware of such inefficiency or of concessions of artificially wide margins. Accordingly, it

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would not appear that size alone is the determining factor when considering the risks posed by competitive rates.

Further, as part of the inquiry into whether firms will be able to survive under competitive public rates, it is important to consider the small institutionally-oriented firm. These firms have developed because many institutional investors have been attracted to their specialized, indepth research -- services which are especially helpful in identifying investment candidates among small and medium sized companies. As such, these research firms serve as an important adjunct to the inhouse research activities of institutional money managers and provide such managers with broader access to market information and to a diversity of investment opinions. As I said earlier, I think such diversity is an important factor in insuring a liquid market.

Under a competitive rate structure, it would appear that the small research firm may be at a cost disadvantage vis-a-vis the large broker under a system which combines the charges for research and brokerage in the common rate. There may well be volume related economies in research. Overhead -- primarily personnel -- is high, and the large firm is advantaged by being able to spread such costs over a great volume of transactions, substantially reducing the unit cost. For the firm lacking substantial volume, unit costs are high. However, as noted above institutional investors may be willing to pay higher prices for specialized research services.

Under a competitive rate system, it is clear that the small research firm has two options. It can charge a commission rate for the brokerage/research package higher than the rates charged by a firm offering only brokerage or a firm large enough to realize substantial volume related economies; or it can charge a "competitive" brokerage fee and bill separately for its research services.

(MORE)

As reflected in the testimony at the Commission's October 29 hearing, it appears that there is little support -- either among institutional investors or brokers -- for the latter approach. Paying up in "hard dollars" would force institutions to evaluate with more precision the actual pecuniary benefit outside research provides. Moreover, and more importantly, the way most current money management arrangements are structured, such hard dollar payments would come out of the institution's management fee, while soft dollar, commission-related payments are in effect paid by the beneficiary.

On the other hand, as the Commission is well aware, preservation -- even temporarily -- of the soft dollar payment system in a competitive rate environment is complicated by legal uncertainties as to the authority of fiduciaries to pay a commission rate higher than the lowest possible "brokerage only" rate, irrespective of whether other services are provided. Most fiduciaries have indicated that -- for reasons of caution -- they will select their brokers by commission price alone. If this in fact occurs, an important segment of the industry may well be driven out of business.

In the long run, we believe the efficiencies of resource allocation associated with hard dollar payments should determine whether we move in that direction. However, we believe it would be unwise to force such a radical change as part of a largely unrelated reform. We recognize that the valuable resources of this part of the industry now depend on the availability of soft dollar payments and accordingly, believe it important that institutions still have the opportunity to pay for research with commission dollars so as to maximize the revenue available for research service.

With this goal in mind we support attempts to eliminate uncertainty under state and federal fiduciary laws as to the right of fiduciaries to purchase research and other services with commission dollars. It should be made clear that a fiduciary may properly pay more for brokerage services if, in his good faith judgment, the related services provided for the benefit of his client's account justify such a payment. At the same time, these protections should be tailored so that fiduciaries cannot charge a large number of accounts when only a few of the accounts actually benefit from the research provided.

If legislation addressing this and similar questions is not enacted before May 1, 1975, implementation of competitive rates as scheduled may create legal uncertainties concerning the fiduciary's ability to pay for research with soft dollars. The Commission can alleviate these uncertainties, in some measure, by moving decisively to issue its own statement on this matter. Yet, in the absence of legislation the courts

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may well become the final arbiters of the legal issues raised by soft dollar payments.

Another important consideration in moving to competitive rates is whether it will cause the collapse of our auction markets. We must ask whether the introduction of competitive rates (particularly competitive intramember rates) prior to the implementation of the national market system could erode and destroy the auction market system of exchanges by diverting away a significant volume of orders. If this is so, it may be that the specialist would not have a sufficient flow of orders to make his service profitable and he thus would leave the exchange, further contributing to its demise.

As a practical matter, we believe limit orders will continue to be placed with exchange specialists for execution, enhancing the depth of exchange markets and thus attracting additional brokers. Furthermore, with competitive public rates, there would appear to be less incentive for institutional investors to channel their business to the third market and other exchanges to save commission dollars. As such, the elimination of fixed commissions could increase the volume of transactions on the primary exchanges and, thus, assure the ability of specialists to contribute to the maintenance of a stable market. Although we have seen no evidence that a significant volume of orders would be diverted from the major exchanges, it may be that some steps should be taken to preserve the flow of orders, pending the establishment of a national market system.

In addition, competitive rates may lead to the demise of some exchanges whose viability depends solely upon the existence of fixed rates (either public or intramember) on the major exchanges. However, we must ask whether the demise of such a system would reflect the fact that firms and investors are able, with competitive rates, to execute their transactions in listed securities more efficiently without having to engage in complex multifirm deals to avoid artificially high fixed rates. If so, the public interest would best be served by not preserving such a system.

Instead, regional securities exchanges should provide services which cannot be obtained on other exchanges, or which are not competitively available on those exchanges. A very important service of the regional exchange is to provide a market for the securities of small and regional companies whose securities could not profitably be traded on a larger exchange. The more regional exchanges that provide these services, the less strain on NYSE specialists and other major exchange traders to handle these issues on terms which might not be profitable.

In short, a fixed rate system cannot be justified simply because it supports an existing exchange operation. If firms find it unprofitable to maintain membership on an exchange under competitive rates, it may mean that such an exchange is not providing the type of auction market which can assure the member firm the best possible price for the security he trades on behalf of his client. The firm survives because it can offer its clients access to the best price. An exchange survives only when it provides such access.

At the same time, we recognize that the intra-member rate question presents a variety of issues not faced with respect to public rates. Because of the internal nature of these activities, the national policy in favor of price competititon may not weigh as heavily here as it does in the public rate area. We have heard concerns about price discrimination, about confusion and conflict concerning the role of floor brokers and specialists arising from a change in intramember rate policies. Accordingly, we will be giving these issues further study, and we urge the Commission to move with great care on the question of intramember rates.

<u>Conclusion</u>

In conclusion, I would like to reaffirm the Department's support for a smooth transition to a system of competitive commission rates, which we believe will benefit investors, the financial community and, our capital markets.

While we believe that the introduction of competitive rates prior to the establishment of the proposed national market system would not cause unfairness or disorderliness on exchanges, we recognize that the stakes are high and uncertainties exist. In the event that competitive rates threaten the fairness or orderliness of our exchanges in the interim before a national market system is in place, we believe that the Commission possesses the discretionary power to take such action as it deems necessary and appropriate to remedy the situation and we would urge that it do so.

Often in formulating public policy, we hear that this may not be the right time. It just may be that no time is a good time to implement controversial change. However, certainty with respect to timing is important to the securities industry as well as every other industry and establishing a date now does provide such certainty. However, in making the final determination as to whether May 1, 1975 is the proper time to implement a competitive rate system, the Commission should carefully consider the state of the economy, the condition of our capital markets, the financial condition of the securities industry, the stability of the existing market system pending establishment of the national market system. These factors have been addressed in the last few weeks and must be examined closely as the Commission moves toward implementation. They are very important and will be critical in assessing the appropriateness of the May 1, 1975, date. Our goal remains the same. What we must do now is to concentrate on the problems that have been identified in order to smooth the transition phase.

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Department of the TREASURY
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FOR IMMEDIATE RELEASE DECEMBER 13, 1974

APPLICATION OF THE CLASS LIFE ASSET DEPRECIATION RANGE SYSTEM (ADR) TO DEPRECIABLE REAL PROPERTY

The Treasury Department announced today that the asset guideline classes and periods for depreciable real property in Revenue Procedure 72-10 (which are the same as the guideline classes and lives in Revenue Procedure 62-21 as in effect on December 31, 1970) will be included without substantive change in a forthcoming update of Revenue Procedure 72-10 to reflect supplements which appear elsewhere. The forthcoming Revenue Procedure will clarify the status under the Class Life Asset Depreciation Range System (ADR) of real property placed in service after December 31, 1973. The asset guideline classes and periods in effect for buildings and depreciable land improvements placed in service prior to January 1, 1974, will remain in effect for such property placed in service after December 31, 1973.

The Treasury Department also called to the attention of taxpayers that H. R. 17488 reported by the Committee on Ways and Means on November 27, 1974, would, if enacted into law, modify the requirement in section 109(e) of the Revenue Act of 1971 that taxpayers electing the ADR system for machinery and equipment must include in that election depreciable real property of the same vintage. The modification would apply to real property placed in service after December 31, 1973.

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FOR IMMEDIATE RELEASE December 13, 1974

SCHEDULE FOR TREASURY'S REGULAR WEEKLY
BILL AUCTIONS DURING THE HOLIDAY SEASON

The Treasury's last two regular weekly bill auctions scheduled for this year will be held on Friday, December 20, and Friday, December 27, rather than on the usual Monday. Announcements inviting tenders will be made on Friday, the 13th, and Friday, the 20th. The payment and delivery day for the bills will be Thursday as usual.

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FOR IMMEDIATE RELEASE December 13, 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 $4,600,000,000 , or thereabouts, to be issued December 26, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,600,000,000, or thereabouts, representing an additional amount of bills dated September 26, 1974, and to mature March 27, 1975 (CUSIP No. 912793 WB8), originally issued in the amount of $1,800,305,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,000,000,000, or thereabouts, to be dated December 26, 1974, and to mature June 26, 1975 (CUSIP No. 912793 WQ5).

The bills will be issued for cash and in exchange for Treasury bills maturing December 26, 1974, outstanding in the amount of $4,601,080,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,799,600,000 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, December 20, 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 26, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing December 26, 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 December 13, 1974

WITHHOLDING OF APPRAISEMENT ON
WELT WORK SHOES FROM ROMANIA

Assistant Secretary of the Treasury, David R. Macdonald, announced today a withholding of appraisement on welt work shoes from Romania pending a determination as to whether they are being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

This decision will appear in the Federal Register of December 16, 1974.

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

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

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

During the period of November 1, 1973 through May 31, 1974, imports of welt work shoes from Romania were valued at roughly $6.7 million.

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FOR IMMEDIATE RELEASE

December 13, 1974

REMARKS OF THE HONORABLE FREDERIC W. HICKMAN
ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY
BEFORE THE
NATIONAL TAX ASSOCIATION - TAX INSTITUTE OF AMERICA
67th Annual Conference on Taxation
St. Louis, Missouri
Wednesday, October 16, 1974
and
as presented by Robert J. Patrick, Jr., International Tax Counsel
BEFORE THE
NATIONAL FOREIGN TRADE COUNCIL
New York, New York
November 19, 1974

Elimination of U.S. Withholding on Dividends and Interest Paid to Foreign Investors

The subject I wish to discuss with you is United States withholding taxes on dividends and interest paid to foreign investors.

Under present law, and subject to numerous exceptions, a 30 percent withholding tax is imposed on the gross amount of dividends and interest paid to foreign investors.

The Treasury Department and the Administration believe that the existing withholding taxes on the dividends and interest payments by United States persons to non-resident aliens and foreign corporations should be eliminated and it should be done now. Elimination of withholding tax on investment income is desirable because:

1. Removal of the tax will increase investment by foreigners in the United States. It will make investing more profitable and less difficult for investors, and it will make it easier for U.S. companies to seek funds in international capital markets.

2. It should improve the relative attractiveness of long term securities and reduce the present imbalance favoring short term securities and bank deposits (which are presently exempt from withholding). Access to foreign funds will permit the United States to continue its role as a capital exporter, including the recycling of funds flowing into and out of the oil producing countries.

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3. It will put the United States financial community back in the center of international capital markets and help them to regain competitive ground lost.

4. It is consistent with principles of tax equity and other rules relative to source of income.

5. It will eliminate what has become a complex patchwork of legislative and treaty provisions and simplify one area of tax law.

The basic point is that the many benefits outweigh the small revenue loss.

The Desirability of Increased Foreign Investment

Increased investment by foreigners in the United States is desirable anytime. Proposals to remove impediments to investment have been under consideration for several years. Increased investment is especially important today when we are faced with a massive outflow of funds to pay for very expensive oil. Imports of petroleum and petroleum products have been running at an annual rate about $20 billion higher than the rate a year earlier. Over the first nine months of this year we have had a substantial trade deficit.

To the extent that dollars piling up abroad are used to buy goods and services produced in the United States --say, wheat for example --we will be exporting real wealth from our economy and are the poorer for it. Further, as dollars simply pile up abroad, their value falls in the foreign exchange market. The increased number of dollars that we must then pay for imports becomes a potential claim on an even larger part of our national production. For example, as the value of the U.S. dollar falls every Mercedes we buy gives some German a potential claim on more bushels of our wheat than previously. Because of the increased cost of energy importing, dollars will tend to pile up abroad faster than they can be recovered through our exports.

In contrast, dollars which are reinvested in the United States stay here and do not involve exporting our real wealth --at least initially. Furthermore, increased foreign investment here keeps dollars from simply piling up abroad and helps forestall further devaluation.

We have for years preached to other countries the value to them of foreign investment in their countries. It is time we took our own preaching seriously. Much has been said recently about a capital shortage in the United States. I shall not argue that question here.

But I will observe that some improvement in the rate of savings and investment seems clearly desirable. We have fallen behind virtually every other major industrial nation in this respect. We stand with the United Kingdom at the bottom of the ladder in the ratio of savings and investment to gross national product.

Investment in the United States by foreigners is not quite so beneficial as investment by our own citizens, because the after-tax earnings on foreign investment are more likely to leave the economy and be lost to us. Nonetheless, the existence of the additional investment here is desirable for three reasons: First, it increases the productivity of labor within our country, which in turn increases the real income of our residents. That increased productivity is critical in the battle against inflation. Second, as capital investment located here wears out and depreciates, it tends to be replaced by machinery and equipment and other assets that are manufactured here; and that too helps our economy. Third, as the investment generates income here, we get the tax on that income. This happens whether the corporation is directly controlled by foreigners, or the corporation simply sells bonds and other securities to foreign investors.

It is true that the after-tax profits on investments by foreigners may eventually be removed from our economy and repatriated by the foreign investor. But repatriation of income is usually only partial. And even when it is total, it usually occurs gradually over time.

In sum, we are much better off to have the investment, even if the after-tax profits are ultimately lost to us, than not to have the investment at all.

Several aspects of the current situation deserve special attention. As we pay greatly increased oil prices to OPEC producers, if they in turn reinvest a substantial portion of that money in the United States, the net result within our economy is likely to be a significant reduction in aggregate domestic consumption and a significant increase in aggregate investment. Some observers, who are worried about our low savings and investment ratio, think that silver lining could be nearly as large as the cloud itself.

Rejuvenation of U.S. Role in International Capital Markets

A second desired result of eliminating withholding is that it will tend to restore the American financial community to a central position in the international capital market. That alone would not justify the legislative change we seek, but it is surely a happy side effect at a time when the state of the economy and the disarray in our capital markets threatens the basic health of our investment industry.

Whatever criticisms may be leveled against that industry, its expertise and going concern value constitute a significant national asset that benefits us all. In recent years, the "action" in international financing has been concentrated abroad, primarily in London. The dominance of London is no doubt related to the fact that our tax treaty with the United Kingdom, like that with several other major countries, eliminates withholding on interest payments and has only a 5 percent withholding rate for individuals on direct investment. Thus, the normal strength of the London financial houses is enhanced by the fact that for citizens of other countries it is often less expensive to invest in the United States indirectly through London than directly through New York or Chicago or San Francisco. Some of the U.S. tax savings that result are no doubt illegal under our U.S. laws, but they are essentially unpoliceable, at least under existing procedures. A similar situation exists with respect to Germany. There is the further fact that there has grown up in Europe --quite apart from treaty rules-- an international Eurobond market in which debt in fact trades free of withholding.

Enhanced Market Efficiency

The statutory elimination of withholding will greatly increase market efficiency for investments in the United States.

The present system narrows and inhibits the market in which would-be foreign investors operate. It places a great premium on complexity and discourages from investing at all those who are unable or unwilling to deal with those complexities.

There have been so many ways--all complicated--around the United States withholding tax that the tax has been honored more in the breach than in the observance.

The principal exceptions to the tax lie in our series of bilateral tax treaties. Our policy has been to seek treaties which eliminate withholding on interest payments. We have such treaties with 12 countries and reduced rates with others. Similarly, we have a number of treaties which reduce dividend rates to 15 percent in the case of portfolio investment and 5 percent in the case of direct investment by a corporate investor. These rates follow the OECD model. These bilateral conventions in effect create a series of individual income tax codes under which income flows incur less tax when passed through a circuitous route of interlocking tax treaties. Inordinate time and effort is spent by tax planners in routing transactions and investments to obtain the most favorable arrangements. In some cases, this leads to the use of nominees and concealed ownership.

In sum, the treaty network already serves to reduce or eliminate withholding in the case of the bulk of investments which are actually in place today. But it does so only at the price of extreme complexity.

Even more fundamentally, the treaty exemptions and reductions are unsatisfactory because they depend on the identity of the holder, i.e., they exempt only residents of the particular country or countries. That greatly restricts the negotiability of securities in the international capital market and greatly narrows the opportunities open to U.S. issuers abroad.

In addition to reduction through tax treaties, domestic legislation has singled out certain categories of income or of recipients of income where the payments will be free of withholding taxes.

Interest on United States bank deposits held by foreigners has traditionally been free from United States withholding tax and amendments that would have brought these deposits under the withholding rules have twice been postponed by the Congress. The present exemption undoubtedly contributes to the present flow of foreign funds into bank deposits rather than longer term securities.

In some cases, withholding has been eliminated because it is not practical as an administrative matter to collect a tax. For example, there are very difficult problems in applying withholding where securities are issued at discount, and the economic benefit is realized subsequently through sale to third parties. Accordingly, short term discount was removed from withholding in 1971. Similarly, capital gains taxes on U.S. investment assets held by foreigners were eliminated through amendments to the Code in 1966.

Other exemptions have been established on conceptual grounds. Thus, U.S. companies having more than 80 percent of their gross income from foreign sources are not subject to withholding tax on dividends and interest paid to foreign investors. This rule was the basis of a major financing device during the period when direct investment regulations required that U.S. companies who wanted to borrow for foreign investment had to do that borrowing abroad.

Statutory amendments tied to the Interest Equalization Tax permitted the direct issuance by United States companies of debt obligations free from United States withholding and estate taxes. These possibilities for raising capital abroad are foreclosed today following expiration of the investment control programs and changes in ruling policy. This leaves United States companies largely unable to issue new securities in the international securities markets that trade free of withholding and estate taxes.

With respect to those transactions that have not been deterred by the withholding, the net effect of the various statutory and treaty exemptions has been to lower the effective rate of withholding tax by 60 percent. For 1972, the total withholding taxes collected were approximately 12 percent of the gross payments reported by withholding agents, despite a basic statutory rate of 30 percent. Further, the amount of tax actually collected is very small. In 1972, only $200 million* of withholding tax was collected of which $20 million is clearly identifiable as withholding on interest.

Thus, the revenue aspects of withholding are not major and the principal effect of the withholding system is to erect barriers of complication and legalese to discourage all but the most sophisticated foreign investors.

It is impossible to know just how would-be investors would change their behavior if we changed the rules. But we are persuaded that on balance our present system is foolishly counter-productive in denying to our economy capital investment which we sorely need.

The Question of "Tax Equity" and "Source of Income"

Some say that the proposal to eliminate withholding violates "tax equity." That assertion was made, though not pressed, in the recent Ways and Means Committee sessions.

It is hard to see what "equity" is involved. In any case, there does not appear to be a problem of equity as between individuals. The only equity issue is one between countries, namely, which country equitably has the right to tax the income from capital. Taxes in the last analysis fall on people and most countries tax their residents or reserve the right to do so. Thus, an individual owner of capital, in the vast majority of cases, pays tax to some country. Whether, and to what extent, Japan and France tax their citizens on particular items of income is a matter of supreme indifference to virtually all American taxpayers, and it is difficult to believe that our citizens would perceive inequities or feel discriminated against by the presence or absence of tax on foreigners. Indeed, the tax system of most major industrial nations weigh much more heavily on their citizens than does ours.

*Including $30 million reimbursed by others (primarily Switzerland) for prior years.

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This is not to say that we are not concerned about tax evasion by investors and I shall have comments specifically on that question.

"But," say some, "the dividends and interest must in equity be taxed here because they have their 'source' or situs here." That is a kind of metaphysical assertion with which it is hard to deal rationally. It is a conclusion, really, rather than a reason. Who can say where an intangible, which in truth has no location, is located? The real issue is pragmatic, namely, where do we want to tax it?

The Code says that interest and dividends paid by U.S. corporations have their "source" in the U.S. But that is simply a drafting technique to make it taxable here and not an expression of some eternal principle.

Once we cease thinking in metaphysical abstractions and focus on the practical problem we can note that not taxing that income here is, in fact, totally consistent with our common law tradition and with long-standing practice within the United States. Intangible possessions such as stocks and bonds have been treated by our states as if they were located at the domicile or residence of their owner. To be sure, that rule, too, is stated in metaphysical terms of "situs" and the rule might well be otherwise. But the rule is not otherwise. Thus, even the State of California, whose agressiveness in such matters is unparalled does not seek to tax residents of Missouri on dividends or interest paid by California companies nor does it seek to assert an estate or inheritance tax on the stock of California companies owned by Missouri decedents. There are other examples that illustrate the arbitrary nature of source rules. Since 1966, the situs of stocks and bonds for federal estate tax purposes is the situs of the issuer, but prior to that date the situs depended upon the nature of the security. The point is that we have used these rules to implement a result we wanted to reach and we can change them as circumstances change.

Further, not taxing the dividend and interest income here is quite consistent with the conclusions of international theoreticians. The question of dividend and interest income was considered 50 years ago by a commission of experts established by the League of Nations. They concluded, back in 1923, that the right to tax movable property should theoretically belong to the state of the taxpayer's residence. But the theory was ignored for the simple reason that the countries from which the dividends and interest were paid did not wish to give up a convenient source of revenue.

In 1963, the Fiscal Committee of the OECD reviewed the earlier recommendations of the theorists and the existing tax conventions that had been adopted in the interim by member countries and observed that:

> "It would be more in keeping with the nature of dividends, which are investment income (to tax them in the State of residence), but it would be unrealistic to suppose there is any prospect of its being agreed that all taxation of dividends at the source should be relinquished."

The Committee, therefore, suggested a compromise by providing for taxation in the country of residence, but with the possibility of a withholding tax at source, limited to 15 percent or 5 percent.

A similar analysis was applied with respect to interest income. The draft proposed a maximum rate of 10 percent in the source country, stating:

> "This rate may be considered a reasonable maximum if it is remembered that the State of source is already entitled to tax profits or income produced on its territory by investments financed out of borrowed capital. The two Contracting States may agree through bilateral negotiations upon a lower tax or even on exclusive taxation in the State of the recipient's residence."

Keep in mind that we are not proposing that the U.S. give up taking profits arising from business activities physically carried on here. The United States collects regular income tax on enterprises located here, regardless of who owns the enterprise. Thus, there is no question of the <u>enterprise</u> escaping taxation.

As a practical matter, I have already noted that a number of our major tax treaties have undone withholding on interest. But none of our treaties completely eliminates the withholding on dividends. That is a topsy-turvy result. Where the enterprise itself has been taxed, the shareholders, but not the bondholders, have in effect been taxed. It would make more sense to impose withholding tax on interest, where the recipient has borne no tax whatever, than on dividends. But perhaps that logical lapse is not serious because the withholding tax on dividends can be easily avoided --at least on direct investment-- by simply adopting a non-dividend policy and plowing back the profits. Upon the event of sale the profits are realized as capital gain and under the Foreign Investors Act of 1966 are not taxed at all to a foreign resident. Furthermore, if the United States business is not separately incorporated, but operates as a branch, its U.S. profits are taxed but the repatriation of its after-tax profits, comparable to dividends, is subject to no withholding tax whatever.

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Tax Treaty Negotiations

There is a legitimate concern over the effect of our unilateral removal of withholding taxes on tax treaty negotiations. The development of a system of bilateral treaties for avoidance of double taxation led in the past to the notion of reciprocal reductions in withholding tax rates. The new realities in this case are relatively clear. First, developing countries generally do not seek to have the United States reduce its withholding taxes on investment from their countries and the United States has generally not sought in its discussions with developing countries to persuade them to reduce their withholding and revenues to the advantage of the U. S. Treasury.

We now have tax conventions with the majority of developed countries. Indeed, virtually all of our treaties are with these countries and they result in reduced rates. There are two observations that can be made concerning possible renegotiations of these treaties. First, individual treaty items are negotiated in the context of an entire treaty and "bargaining" is with respect to all of the articles. For example, in 1966 we unilaterally relinquished a claim to tax capital gains of foreign investors in most cases, but we continue to include a reciprocal capital gains exclusion article in our recent treaties and revisions. Second, it is open to question whether developed countries are concerned whether we have high withholding taxes applicable to their residents and whether we have any "leverage" by threatening a high withholding rate. It is questionable whether any of the traditional developed countries are seeking more favorable foreign investment opportunities for their investors. The expanding adoption of imputation systems for the integration of corporate and personal income taxes reflects an increasing nationalistic tax policy since individual shareholders receive an imputation of the corporate tax only with respect to domestic investment. Under all of these circumstances, United States withholding rates are of limited significance in treaty bargaining.

The withholding tax negotiating issue between countries that provide tax credits to prevent double taxation does present the question of which country will receive the tax revenues, since under a credit system the withholding taxes will be collected by the source country and credited by the residence country. We recognize that a portion of the revenue loss from unilateral relinquishment of withholding will result in a transfer to foreign treasuries. Even in these cases, benefits will accrue to foreign investors who must now cope with procedural formalities to obtain tax credits or who may not be able to obtain tax credits because they are exempt institutions under their local laws, as in the case of charities, or have excess foreign tax credits and cannot obtain full credit for withholding taxes, as in the case of a withholding tax on gross payments of interest income received by a financial institution that has high borrowing costs. The transfer of revenues to the foreign treasury does not occur in the case of countries that relieve taxation by the exemption method and the benefit will flow to the investor.

The principle of extending exemption or reduced rates of withholding on investment income has been accepted throughout the history of our tax treaties. However, the tax treaty route is a slow process for extending that result. While the United States has renegotiated several existing treaties in recent years with developed countries and has several other treaties pending or in advanced stages of negotiations, only one new country, Trinidad and Tobago, has been added to our list of treaty partners in the past ten years.

Tax Avoidance Problems

Treasury officials in some European countries have expressed concern in recent years over tax avoidance by their residents investing in the Eurobond market in which the securities are issued in a manner which makes them free of withholding at the source. They have suggested the desirability of imposing uniform withholding taxes on securities issues, with some form of verification and refund system. Some European capital importing countries, which do not have withholding tax on interest today, have opposed this suggestion and have pointed out that the imposition of a withholding tax at the source at a 20 or 30 percent rate may make tax avoidance somewhat more expensive, but will not deter avoidance for persons in higher marginal income tax brackets. And, of course, for a number of years we have exempted capital gains of foreign investors from taxation, which for investors seeking capital appreciation is more significant than a withholding tax on current income.

In some cases, the residence countries expressing a desire for uniform withholding have been unable or unwilling to prevent wholesale tax avoidance by their residents. Sometimes their domestic secrecy laws severely limit their ability to audit the accounts of their residents. We are mindful of the problems raised by tax avoidance, but do not believe that it is necessary to structure our internal tax system to make up for the inadequacies of individual countries with respect to the taxation of their own citizens. Thus, we believe it desirable to avoid cumbersome withholding and refund systems, but we do support the concept of expanding the exchange of information to permit countries to have access to data they may require for tax enforcement.

At the suggestion of the Treasury Department, the pending Ways and Means Committee tax reform legislation which adopts rules for elimination of withholding on dividends and interest contains a provision that would permit the imposition of a withholding tax in the

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case of a country that refuses to cooperate in identifying recipients of dividend and interest payments where there is believed to be a substantial problem of tax evasion.

Ways and Means Bill

The Ways and Means Committee in its broad tax reform bill has agreed to eliminate withholding, but only for "portfolio" investment as distinguished from "direct" investment.* Those are words of art but they mean different things to different people. In general, the term "portfolio" investment is used to describe passive investment, and "direct" investment is used to describe investments in which the investor acquires a controlling interest and intends to take part in the active management of the enterprise.

The current draft of the House bill defines direct investment in terms of foreign control of a U.S. corporation. Under the draft definition, a shareholder is a direct investor only if

--the investor owns 10 percent or more of voting power of the corporation, and
--more than 50 percent of the total voting power of the corporation is foreign owned.

Given the magnitude of current imbalances, it is especially desirable to encourage foreign investment that will stay here. A great deal of portfolio investment is permanent investment, but the fact remains that direct investment is much less mobile and more apt to remain within our economy. Thus, we are disappointed at the Committee's tentative decision not to eliminate withholding on direct investment. We hope that this matter will be reconsidered. We are mindful of the political fact that men in the street worry about foreigners controlling American business and assets. We recognize that this can be a legitimate concern where such matters as national defense are involved. Existing laws or further restrictions, if required, can protect our national interest. The use of the tax laws is an inappropriate and ineffective deterrent in this regard. As noted, there are already numerous ways to avoid many of our withholding taxes. In general, we should be pleased with the prospect of additional investment in the United States and we should remember that our citizens and our government have been assuring foreigners for years that American capital is great for them and that they should welcome American investment in their economies.

*Among the sections of this general reform bill that have been incorporated in the Energy Tax and Individual Relief Act of 1974, is the elimination of withholding on portfolio interest.

Conclusion

The conclusion is inescapable: the existing withholding tax system is a crazy quilt. The present treaty system of varying rates of withholding will increasingly require more elaborate enforcement procedures to verify that benefits flow only to treaty residents --perhaps on a refund basis. Definitions of a treaty resident in the case of corporate owners will grow more complex.

It is time we rationalized the withholding system on pragmatic grounds. The revenue it produces is not significant. The investments it discourages we believe are major. If we are correct, the revenues from that increased investment will more than offset the revenues lost. It is in our national interest to eliminate withholding. We should do so and do so promptly.

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NEWS

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December 13, 1974

FOR IMMEDIATE RELEASE

TREASURY TO ROLL OVER NOTES IN QUARTERLY CYCLE

The Treasury will refund $1.9 billion of notes held by the public maturing December 31, 1974, by selling $2.0 billion of 2-year notes maturing December 31, 1976. Additional amounts of these notes may be issued at the average price of accepted tenders to Government accounts and to Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

The notes will be sold at auction, on a yield basis, on Monday, December 23. Bidders must state the yield they will accept on the basis of a percentage to two decimal places. The coupon rate will be set, after the auction, at 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 minimum denomination of these notes will be $5,000.

The payment date for the notes will be December 31, 1974. Payment may not be made by credit to Treasury tax and loan accounts.

This is the second rollover of notes in the quarterly cycle of 2-year maturities started in 1972.

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For information on submitting tenders: TELEPHONE WO4-5294

FOR IMMEDIATE RELEASE December 13, 1974

TREASURY FINANCING

The Treasury will auction under competitive and noncompetitive bidding $2.0 billion, or thereabouts of 2-year notes to raise cash for refunding $1.9 billion of notes held by the public maturing December 31, 1974. The coupon rate for the notes will be determined after tenders are allotted. Additional amounts of the notes may be issued to Government accounts and to Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

The notes to be issued will be Treasury Notes of Series K-1976 dated December 31, 1974, due December 31, 1976 (CUSIP No. 912827 EB4) with interest payable semiannually on June 30 and December 31. They will be issued in registered and bearer form in denominations of $5,000, $10,000, $100,000 and $1,000,000, and in book-entry form to designated bidders. Delivery of bearer notes will be made on or about January 6, 1975. A purchaser of bearer notes may elect to receive an interim certificate on December 31, which shall be a bearer security exchangeable at face value for Treasury Notes of Series K-1976 when available.

Tenders will be received up to 1:30 p.m., Eastern Standard time, Monday, December 23, 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 Sunday, December 22. Each tender must be in the amount of $5,000 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.

Competitive tenders for the notes must be expressed in terms of annual yield in two decimal places, e.g., 7.75, 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 amount 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 99.501 will not be accepted.

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 the $2.0 billion offered to the public, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $500,000 or less will be

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accepted in full at the average price of accepted competitive tenders, which price will be 100.00 or less.

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 Tuesday, December 31, 1974, at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt in cash, 5-7/8% Treasury Notes of Series F-1974, which will be accepted at par, in other funds immediately available to the Treasury by December 31, 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, December 27, 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) Tuesday, December 24, 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.

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 Standard time, Monday, December 23, 1974.

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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DEPARTMENT OF THE TREASURY
STATEMENT OF
THE DEPUTY SECRETARY OF THE TREASURY
STEPHEN S. GARDNER
BEFORE THE
SENATE COMMITTEE ON GOVERNMENT OPERATIONS
TO REVIEW S.4212 and S.4130
DECEMBER 16, 1974

Mr. Chairman and Members of the Committee: I am pleased to appear before you to discuss the important subject of productivity. The Department of the Treasury is vitally interested in improving the U. S. economy. The Secretary of the Treasury is Chairman of the Economic Policy Board which oversees the work of the current National Commission on Productivity and Work Quality. The Nation's future economic performance will be directly affected by productivity gains. The two bills being reviewed here provide constructive suggestions for meeting that goal.

Productivity is clearly a fundamental variable in the U. S. economy, particularly at this difficult time. Improved productivity would provide major anti-inflation benefits which would result in rising standards of living and more stable prices. Our international competitive position depends upon maintaining positive long-term trends in productivity. The preservation of the environment and the efficient allocation of valuable human and material resources is directly affected. In fact, the entire industrial relations environment, including the quality of work, will depend upon the success of programs to stimulate national productivity.

The remarkable progress of the U. S. economy has resulted from the productivity of a highly trained and educated labor force, effective managerial leadership, extensive capital investment and the application of new technology. It is, therefore, disturbing to note that the rate of productivity growth in the United States has declined in recent years and that for over a decade U.S. productivity improvement has ranked well below the results reported in most other industrial nations. It is no coincidence that the Nation's level of capital investment has also been relatively low. Part of these unfavorable comparisons may reflect cyclical conditions and the large

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size of our mature economy which increasingly emphasizes services and immediate consumption. But merely recognizing the problem is an inadequate reaction. Programs to stimulate productivity are badly needed. Therefore, we commend the Committee for focusing national attention on this crucial economic challenge.

Role of the Private and Public Sectors

The private sector of the U. S. economy has historically been responsible for most of our gains in productivity. Profit opportunities have motivated companies to invest additional capital and to press for efficient production and distribution procedures. Rising "real" earnings have provided strong incentives for workers, who continuously have moved into more productive jobs and occupations. American families have emphasized increased educational opportunities for their children to prepare them for these better job opportunities. The rising standard of living resulting from this combination of circumstances has been a key factor in the economic success of America. Since the actions of labor and management will continue to largely determine productivity results, public and private sector efforts should be coordinated. A major goal of any governmental program should be to gain the support of labor and management for cooperative efforts. But there is also an important role for government programs:

1. The productivity of the entire economy could be significantly improved by removing regulatory, legislative and administrative barriers to improving efficiency. There are hundreds of specific governmental actions which unnecessarily waste our valuable resources.

2. Government leadership can focus attention on long-term goals and support experimental and demonstration projects which in this burgeoning technological age are too novel for private investment or even beyond the capabilities of the private sector.

3. The government can increase the visibility of productivity programs and coordinate efforts throughout the private and public sectors.

4. The government can coordinate the efforts of diverse educational and research institutions and the activities of numerous State and local programs.

5. The government can develop comprehensive statistical information and operate capital grant and technical assistance programs.

For all of these reasons, the Administration supported the creation of the National Commission on Productivity (NCOP) in 1970. The performance of that Commission during the first three years of its existence was restricted by funding and organizational limitations and chronic uncertainties about its future. As a result, it has been difficult to develop a sustained work program. Nevertheless, several important research and demonstration projects are under way or have been completed. A summary of current activities of the National Commission on Productivity and Work Quality is attached for the record. In August of this year the Congress acted to rejuvenate the Commission by providing a budget of $2 million for Fiscal Year 1975 and a broad mandate to stimulate productivity throughout the public and private sectors of the economy. A newly designated National Commission on Productivity and Quality of Work met with the President last Thursday and a diversified work schedule and specific goals were discussed. We believe that this strengthened organization can serve as a catalyst in coordinating labor, management and governmental efforts to stimulate productivity.

New Productivity Proposals

Many of the specific suggestions in the two Senate bills under consideration in these hearings could make significant contributions to the existing efforts of labor and management groups, the efforts of diverse government organizations and the revived National Commission on Productivity and Quality of Work. The proposals for establishing a national productivity center, setting up a program of capital grants and technical assistance delivered through existing educational and research institutions and identifying a positive national policy for stimulating productivity can all contribute to the national economic goals. Each of these proposals should receive careful consideration to see how they can be used to improve existing activities. We see nothing inconsistent with these ideas and the existing plans of the Commission. There should also be efforts to aid private sector activities whenever possible because most of the actual work must be done by labor and management groups. Government involvement is certainly desirable but its role will be principally that of serving as a catalyst.

The Department of the Treasury particularly supports the call for removing the legislative and regulatory barriers which artifically restrict the efficient functioning of the economy. The President has requested that a National Commission on Regulatory Reform be created and we strongly support this proposal and suggest it will be an invaluable companion effort in the work of improving productivity. This Nation's economic system and our Government can no longer tolerate or condone waste and inefficiency.

Summary

We commend the Committee for its efforts to focus attention on the vital subject of productivity. While there are numerous government agencies and programs that are concerned about productivity problems, there is a need to coordinate all of these efforts and we support your suggestions for stimulating national productivity. The future of the U. S. economy will be directly affected by the success of these efforts. We urge that immediate legislative action be undertaken to avoid the kinds of delays and uncertainties that too often have existed in the past.

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ATTACHMENT:

SUMMARY OF CURRENT ACTIVITIES
OF THE
NATIONAL COMMISSION ON PRODUCTIVITY
AND WORK QUALITY

The efforts of the National Commission on Productivity and Work Quality toward improving productivity fall into four different catagories:

1. Public Sector - including Federal, State and local governments;

2. Private Sector - food distribution, health care, construction and transportation industries;

3. Quality of Work - labor, management committees and behavorial science; and

4. Education.

PUBLIC SECTOR

In the public sector the NCOP and WQ has supported and encouraged the efforts of the OMB, CSC, GAO to measure and enhance Federal government productivity and is also active in a variety of projects designed for productivity improvement in state and local governments.

For Elected Officials - a guide entitled "So, Mr. Mayor, You Want to Improve Productivity" has been published and is the basis for a series of meetings with top elected officials throughout the country. Similar publications for city and county elected officials are in process, as well as a booklet on productivity improvement in state government for legislators.

For management - a program to launch twenty cities into productivity improvement programs with development of follow-up guidance during the initial months of effort.

- A series of 4 Productivity Workshops is planned for state and local officials to facilitate the transfer of improved methods between jurisdictions.

- Training materials, now scheduled for field testing will, if successful, be provided for internal instruction in the factors of productivity.

Incentives - a comprehensive report updating an earlier survey of personnel incentives used by public administrators is complete and scheduled for early publication. It is hoped that awareness of existing programs will stimulate further development of this topic.

Follow-ups of the successful Solid Waste and Police productivity reports are planned with publication of actual case histories of recorded improvements resulting from the reports.

PRIVATE SECTOR

In the private sector the NCOP and WQ is concentrating its activity in the fields of food distribution, health care, construction and transportation.

In food distribution the following projects are in progress:

- Work with CWPS to encourage backhaul through a pamphlet on benefits and meetings with manufacturers, FTC and distributors;

- Investigation of consolidated delivery systems costs and benefits to participants (with Department of Agriculture);

- Enlistment of industry and Department of Commerce support for a study of costs and benefits of modularized system;

- Developing awareness of technological needs by retailers through holding conferences at M.I.T., Michigan and on the West Coast;

- Providing help to the industry in developing orderly manpower adjustment programs.

In health care the following projects have been undertaken to contribute to increased productivity:

- Over 100 practitioners indentified opportunities to increase productivity throughout the industry;

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- A nationwide education program on productivity for hospital administrators;

- Development of a statewide productivity measurement system for national implementation;

- Pooling of expertise of industry and health leaders in one state to pursue health care productivity improvement opportunities;

- Removal of IRS barriers to hospital employee incentive programs;

- Implementation of an in-hospital productivity improvement program.

Problems of productivity in the construction industry are being approached by:

- A conference held with leading labor/management officials on common problems of productivity measurement;

- A report on new labor management initiatives to improve productivity.

- A labor/management subcommittee to deal with improvements in collective bargaining, productivity, and manpower issues.

In transportation the NCOP and WQ has identified freight car utilization as a control issue in the fiscal viability of a basic mode of transportation as well as providing the increased service required by the American economy.

Accordingly, work on the interchangeability of freight cars has resulted in a "clearing house" experiment designed to eliminate excessive movement of empty cars. If successful, this experiment with 3 cooperating railroads, could show substantial direct operating savings, reduced capital investment and significantly better service to shippers.

Another experiment, also in progress, is designed to reduce shortages of steel mill gondola cars.

In this field of new technology, the NCOP and WQ is encouraging railroad and automobile representatives to confer and agree on common designs as new rail cars are developed for shipment of autos.

Work is also under way on applications of both new and existing equipment for integrated shipments in a transcontinental intermodal food distribution service.

The dedicated train concept as the commission applied it in the "Fresh-from-the-West" unit train service is proving that refrigerator car cycle time can be cut by 30% -- the equivalent of 900 new cars or a $40 million investment -- with far better service to the consumer.

QUALITY OF WORK

As a result of its Congressional mandate the NCOP and WQ is developing material of practical help in the establishment of labor/management committees.

A booklet "Labor-Management Productivity Committees in American Industry" is being produced and material is being obtained that will result in case studies of 8-10 public sector committees.

In the plant/community level the NCOP and WQ is planning to hold five conferences in Illinois, Wisconsin and New York (with FMCS), and a statewide labor/management conference in Texas, with follow-up by State Institutes of Labor Relations.

The results of these meetings will be consolidated into a publication "Pointers for Labor-Management Committees" which should go a long way in overcoming obstacles to the formation of these committees throughout the Nation.

In the behavorial science field the Commission is evaluating the impact which two types of increasingly popular programs have on productivity.

- A participatory incentive plan in a large corporation (DeSoto Paint Corporation).

- Flexible working hours in a service industry (First National Bank of Boston).

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Work (in cooperation with DOL) is being done to produce guides for the appropriate application of behavorial science techniques and a report will be issued on management actions taken in response to attitude surveys of 7,500 workers in five federal agencies (with CSC).

EDUCATION

To continue its efforts in technical education the Commission is at work on a series of publications that will be of value to those working on productivity programs. These include such studies as:

- "The Role of Productivity in Controlling Inflation".

- Productivity commissions in other countries - a comparison of objectives, programs and background.

- Productivity trends and differences at the plant level:

  - Casebook on Company Productivity Programs with Emphasis Upon How the Companies Got Started

  - Analysis of Factors Affecting Interplant Differences in Productivity in Selected Industries

- "Public Attitudes on Work-Related Matters".

The Commission has completed 16 publications and has filled a total of 227,000 requests for them. An additional 18 publications are in various stages of completion for availability during FY 1975.

The Commission also works actively with other federal agencies on the design and implementation of research agencies.

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The Public Awareness program, in cooperation with the Advertising Council, Inc., launched in the Fall of 1973, continues in operation.

Using the themes "Pride in Work" and "Productivity, the Key to Your Future" it is estimated to have made over 150 million contacts with the public. Materials have been requested and used by over:

2,500	Radio Stations	600	Magazines
1,000	TV Stations	100,000	Trains and Buses
1,000	Newspapers	3,500	Billboards

Background conferences with business, economic and labor writers and editors are being scheduled to improve general understanding of productivity.

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13-wk . 26-wk

Last
7.172 week 6.911

To-
7.058 day 6.858

Low
since
6.698 10/7/74

2/15/74 6.787

FOR RELEASE 6:30 P.M. r 16, 1974

RESULTS C

Tenders for $ 2.6 bi for $ 2.0 billion of 26-week Treasury bill mber 19, 1974, were opened at the Feder s are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	maturi			bills e 19, 1975
	Price			Equivalent Annual Rate
High	98.231			6.745%
Low	98.213			6.901%
Average	98.216			6.858% 1/

Tenders at the low llotted 80%.
Tenders at the low llotted 92%.

TOTAL TENDERS APPLIED FO ISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 60,385,000	$ 38,595,000	:	$ 21,750,000	$ 11,450,000
New York	3,789,045,000	2,035,535,000	:	2,950,440,000	1,623,840,000
Philadelphia	64,075,000	36,045,000	:	18,755,000	12,645,000
Cleveland	89,325,000	55,325,000	:	30,685,000	30,335,000
Richmond	39,505,000	32,435,000	:	20,080,000	19,380,000
Atlanta	54,155,000	40,020,000	:	18,125,000	15,225,000
Chicago	314,295,000	118,110,000	:	181,295,000	117,595,000
St. Louis	49,090,000	29,385,000	:	27,750,000	24,750,000
Minneapolis	22,700,000	6,650,000	:	12,130,000	12,130,000
Kansas City	77,310,000	40,490,000	:	45,560,000	45,560,000
Dallas	41,465,000	26,435,000	:	18,490,000	14,490,000
San Francisco	295,885,000	140,995,000	:	124,950,000	72,790,000
TOTALS	$4,897,235,000	$2,600,020,000a/		$3,470,010,000	$2,000,190,000b/

a/ Includes $540,045,000 noncompetitive tenders accepted at average price.
b/ Includes $196,125,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 7.29% for the 13-week bills, and 7.20% for the 26-week bills.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220

FOR RELEASE 6:30 P.M. December 16, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.6 billion of 13-week Treasury bills and for $2.0 billion of 26-week Treasury bills, both series to be issued on December 19, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 20, 1975		26-week bills maturing June 19, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.231	6.998%	96.590	6.745%
Low	98.213	7.069%	96.511	6.901%
Average	98.216	7.058% 1/	96.533	6.858% 1/

Tenders at the low price for the 13-week bills were allotted 80%.
Tenders at the low price for the 26-week bills were allotted 92%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 60,385,000	$ 38,595,000	$ 21,750,000	$ 11,450,000
New York	3,789,045,000	2,035,535,000	2,950,440,000	1,623,840,000
Philadelphia	64,075,000	36,045,000	18,755,000	12,645,000
Cleveland	89,325,000	55,325,000	30,685,000	30,335,000
Richmond	39,505,000	32,435,000	20,080,000	19,380,000
Atlanta	54,155,000	40,020,000	18,125,000	15,225,000
Chicago	314,295,000	118,110,000	181,295,000	117,595,000
St. Louis	49,090,000	29,385,000	27,750,000	24,750,000
Minneapolis	22,700,000	6,650,000	12,130,000	12,130,000
Kansas City	77,310,000	40,490,000	45,560,000	45,560,000
Dallas	41,465,000	26,435,000	18,490,000	14,490,000
San Francisco	295,885,000	140,995,000	124,950,000	72,790,000
TOTALS	$4,897,235,000	$2,600,020,000a/	$3,470,010,000	$2,000,190,000b/

a/ Includes $540,045,000 noncompetitive tenders accepted at average price.
b/ Includes $196,125,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 7.29% for the 13-week bills, and 7.20% for the 26-week bills.

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FOR RELEASE AT 10:00 A.M.
TUESDAY, DECEMBER 17, 1974

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE
SENATE BUDGET COMMITTEE
DECEMBER 17, 1974

Mr. Chairman and Members of this Committee:

It is a pleasure to return before your Committee to continue the hearings initiated in August. These are important times for the Committee and for all of us. A rate of inflation unprecedented in our peacetime history is now coupled with a decline in economic activity and rising unemployment. In large part, our present difficulties are the result of earlier failures, both fiscal and monetary, that extend back in time a decade and more. Your Committee, and its counterpart in the House of Representatives, can play an important role in helping to make the Federal budgetary process a much more effective instrument of economic stabilization in the future than it has been in the past. We want to work closely with you to achieve that objective. In this statement I have tried to answer the specific questions you raised, Mr. Chairman, in your letter of December 5.

There have been significant changes in the economic situation since I appeared before you in August. These changes deserve and are receiving our close attention within the Administration. However, nothing has happened in these past few months that detracts from the necessity of bringing the entire Federal budget process under much better control. Federal expenditures have doubled in the past 8 years and have built up a powerful momentum. Even with favorable action on the President's proposed cuts in spending, Federal outlays would rise by $34 billion in the current fiscal year -- a rise of 13 percent. At that rate, Federal expenditures would double again in just another

6 years. We must not allow anything like that to happen.

The problem is not only runaway Federal expenditure programs and chronic budget deficits. We are deceiving ourselves and the American public by excluding items from the budget that have a considerable impact on the economy and 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 Federal programs outside the budget was estimated at $28 billion. During the past decade the unified budget had a cumulative deficit of $102.9 billion. But total net borrowings for off-budget programs were an even more staggering figure -- $142.0 billion. The disruptive effects on the Nation's capital markets of having the government borrow one quarter of a trillion dollars in a single decade deserves much more attention. I seriously doubt that we will ever be able to have either stable housing markets or the level of savings and capital investment needed to generate the necessary jobs and economic output until we correct this serious government distortion of the financial markets.

There is much that needs to be done -- and done quickly -- by your Committee and the rest of us to restrain excessive Federal spending and moderate the use of Federal credit. We will not solve the problems of stagflation by opening the sluice gates of Federal spending and lending. We would only worsen our long run budgetary situation which is bad enough already.

While sticking to a course of expenditure restraint, we recognize that the economy is in need of a degree of fiscal and monetary support. The economy is in a recession and the downward movement will probably continue into the spring of next year. We expect real growth to resume sometime during the middle months of the year.

At present, the automobile and housing industries account for a large part of the rate of change in the economic situation -- much more than would be suggested by their relatively small average share of GNP. Both industries have substantial inventories of unsold units to work off. Both industries are thus producing at unsustainably low rates -- well below their long-run normal levels. As soon

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as inventories are brought into better balance, production levels can increase again in both industries, probably in the late winter or early spring. In addition, most observers expect car sales to rise from their recent very low levels, which would also require a pick-up in automobile production. In housing, where financing is always the key factor, there has already been an increase in savings flows to mortgage lenders, which is establishing the preconditions for a recovery in residential building activity.

However, the recession has not yet bottomed out; economic recovery still lies in the future. At the same time, some meaningful improvement in the price picture is beginning to emerge and more will appear. This is a very encouraging development. Nevertheless, the situation is still one of too much inflation and too much weakness in economic activity.

Some people feel that we must, therefore, make an agonizing choice between fighting inflation and fighting recession. I cannot agree. The two conditions cannot be separated. Inflation and recession are inextricably intertwined -- they are both integral parts of the same disease.

Inflation led directly -- through the high interest rates that always accompany inflation -- to severe financial instability, to a heavy outflow of funds from thrift institutions, to a sharp squeeze on the availability of mortgage credit, and thereby to one of the worst slumps on record in the housing industry. Similarly, inflation has been a major factor -- perhaps <u>the</u> major factor -- that has demolished consumer confidence, which is having a crushing impact on sales of automobiles and other consumer goods. Surely the answer to these problems does not lie in policies that would invariably lead to still further increases in the rate of inflation. That road leads to economic and financial disaster.

We must recognize that fiscal discipline is the only appropriate course of action. I am not, of course, proposing doctrinaire actions to achieve unrealizable and undesirable budget goals that would aggravate the recession. Budget deficits are inescapable in the present situation. There is a vast difference, however, between a budget deficit arising from slow growth in receipts in a softening economy, and a budget deficit arising because of a burst of Federal expenditures.

But our present Federal budget position is already expansive. As I mentioned earlier, we face an expenditure increase of $34 billion or 13 percent. And if the proposed spending cuts are not realized, the gain will be $38½ billion, or 14½ percent.

Thus we should avoid a new spree of "budget busting" in the guise of curing recession. Spending programs designed for that purpose generally come too late, cannot be reversed, only intensify inflationary pressures in the recovery and thereafter, and ultimately must be paid for through the burden of higher taxes on the American people or, alternatively, through the cruel tax of inflation. Furthermore, larger Federal expenditure programs would shift resources from the private to the public sector at a time when all levels of Government are already taking one-third of total output.

What we need now, in my opinion, is a shift in the mix of policy to achieve a better balance between our monetary and fiscal positions. Over the past year, monetary policy has carried a disproportionate share of the burden of stabilization policy. This was necessary because fiscal policy did not do its share. In the present situation, therefore, we should be maintaining firm fiscal discipline. This is the purpose behind the President's proposals to reduce the explosive growth of Federal spending by $4.6 billion in fiscal 1975, a cut that will produce at least $6.7 billion of savings in 1976 and more in future years.

We should recognize that our measures of budget policy are seriously incomplete at the present time. First, the unified budget does not reflect the off-budget lending and loan-guarantee programs that I mentioned earlier. With net borrowing for off-budget programs added in, the deficit in fiscal 1973 would have totalled $39.5 billion (rather than the $14.3 billion shown in the unified budget), and in 1974, about $32 billion (rather than $3.5 billion). Because of their impact on the growth of money and credit, the inflationary impact of these off-budget lending programs is comparable to that of deficits in the unified budget. Second, the acceleration of inflation these past couple of years has boosted tax receipts (especially from taxes on inventory profits) faster than it increased Government

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expenditures. This has narrowed the budget deficit, but that reduction does not indicate fiscal restraint -- it simply reflects the increase in the rate of inflation. For these reasons, Federal fiscal operations have been much more stimulative in fact than they have appeared to be.

Thus, fiscal policy should be kept under a tight rein. At the same time, however, monetary policy is easing. Indeed, the Federal Reserve has already moved a considerable distance in this direction. If we can pursue budget discipline, this will permit a further easing in credit conditions, which will assist the recovery in housing and help to restore consumer and business confidence. As I mentioned earlier, a reflow of funds to the thrift institutions has already begun.

We have at the present time an extraordinary opportunity to alleviate our economic problems. The first essential step in the anti-inflation fight has already been completed in that the excess demand conditions that characterized our economy in 1973 have ended. We no longer have "too much money chasing too few goods".

Right now we are seeing the first concrete evidence of some progress on the inflation front. Raw materials prices have been falling since the end of July. The latest consumer and wholesale price indexes show some slackening in the upward thrust of nonfood commodity prices. Interest rates on Treasury bills are down about 2½ percentage points; long-term corporate bonds are down about 1-3/4 points. Competition is breaking out again in many industries. Inflationary pressures are still strong on both the price and wage sides, but at last some indications have appeared that we are making headway.

This does not mean that inflation will quickly disappear, quite the contrary, but it does give us the opportunity to reduce the rate of inflation to more tolerable levels. We must not abandon the effort now that it is beginning to show signs of paying off. We can and must have recovery from the current recession, but we must do that in a way that does not lead to an overheating of the economy again. We must not get back into the situation where the economy is propelled beyond the limits of its capacity to produce.

We will, however, lose this opportunity to achieve stable economic growth if we switch to excessively stimulative policies. That has been the repetitive pattern over the past decade. Every time the economy showed signs of hesitation, there was a pronounced shift to stimulative monetary and fiscal policies. The result was that we pushed the inflation rate up onto higher and higher plateaus. In 1966, the peak inflation rate was about 4 percent; in 1970 it was about 6 percent; and now prices are rising at about a 12 percent rate. The same process ratchetted interest rates higher and higher. In 1966 rates on long corporate bonds peaked at a little over 6 percent, in 1970 they reached almost 10 percent, and this year the high was 12 percent.

We should also take note of what happened to unemployment over this same span of years. Economists often talk of the trade-off between inflation and unemployment. This would suggest that as inflation worsened over the past decade -- because stimulative economic policies were pursued -- unemployment should have improved. But this did not happen; in fact, the unemployment rate climbed to higher and higher plateaus. In 1966-67 the unemployment rate barely increased and reached a high of about 4 percent; in 1970-71 unemployment climbed to around 6 percent; and unemployment is currently at 6½ percent and still rising.

Surely the lessons are clear: First, there is no worthwhile payoff in a decision to ignore inflation and focus all policy on recession. Both are components of the same malaise. We are fighting a two-headed monster: one head is inflation and the other is recession, and the inflation has been the culprit in causing much of the recession. And the experience of the past decade clearly demonstrates that allowing inflation to accelerate so explosively does not achieve any benefits (except in the very short run) in the form of a reduced level of unemployment. Second, if we do not seize this present opportunity to pursue responsible fiscal and monetary policies, the problems of rampaging inflation and a weak economy will be even worse the next time around.

This is why I believe that the top priority for both the Executive and Legislative Branches is to get our fiscal house in order. The runaway pattern of Federal spending threatens to become permanent. It is high time for a thorough review of Federal spending programs and a concerted effort to blunt the momentum of their growth.

Our current economic condition is very difficult but I am convinced we can bring the economy under better control if we persevere with suitable policies. We are presently paying the price -- the high price -- for the irresponsible policies of the past decade. If we turn again to excessive economic stimulus, in an attempt to escape the consequences of our past indulgences, we will only be presented with a larger bill later on. When will we learn that each time we refuse to pay the price, we face a still higher price the next time around?

Measures to adequately cushion the impact of the current economic adjustment where it falls with disproportionate force must be enacted promptly; the burdens of stagflation must be equitably shared. At the same time, I hope your Committee will assist in the equally important task of bringing Federal expenditures back within the limits of what the public is willing to provide in the form of tax revenues.

Energy Policy

For many years, the energy policy of the United States 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.

We have now learned that such a 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 over 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. Now we are paying

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an extraordinary price for our mistakes. In 1974, the United States will pay $27.5 billion for foreign oil, and our balance-of-payments deficit is likely to be $5 billion. 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.

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 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 of 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 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.

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 whether oil prices will come down but when they will come down.

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 make oil a political weapon.

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I believe we can now attack our problems with vision born of our mistakes. For many years the Government has posed major obstacles to the efficient market allocation of 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 approval; and, we impose environmental restraints of questionable validity upon both the production and combustion of fossil fuel.

In order to accelerate domestic production, I would submit that the Government must act decisively to free producers from Federal laws and regulations which discourage growth. We at the same time should understand that now is not the time to point the finger of guilt at American energy industries. In the future, they are the major hope we have to meet our needs. However, what we need to remember now is that our success in providing needed supplies will be related to our willingness to allow the market place to function freely so that the exploration and development of energy sources will be encouraged. We must continue to provide energy companies with reasonable policies under which they can expand their production.

Our policy must be to eliminate waste through energy conservation programs and to stimulate the development of domestic energy resources. We must accelerate the development of oil and natural gas in Alaska and on the Outer Continental Shelf; we must boost coal production and bring on-line coal liquefaction and gasification capacity; we must develop the promise of our vast oil shale reserves; and expand our nuclear and geothermal power.

We have an abundance of natural resources that can meet our needs. For instance,

- -- The U. S. has one trillion, 500 billion tons of identifiable coal reserves, or half of the known freeworld reserves, and one-third of these reserves are economically recoverable now.
- -- We have upwards of 80 billion barrels of oil and 490 trillion cubic feet of natural gas on the Outer Continental Shelf -- for which intensive drilling is now becoming feasible as the Government accelerates the leasing program.

-- We have an estimated one trillion, 800 billion barrels of oil shale resources in Western States, enough to meet our total needs for decades. The time has come for the Federal Government and private industry to bring the promise of shale into the marketplace.

Throughout these efforts, we strongly believe that the Federal Government has a responsibility to provide strong leadership -- to insure that there are necessary incentives for the development of our massive untapped energy resources.

Recently Secretary Kissinger and I outlined the U. S. proposals for international cooperation in energy and finance. The essence of our 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.

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Our ideas call for a forthright effort by the world's major industrial countries to resolve the international energy crisis. To implement our far-reaching initiatives will require many weeks of dialogue. Even now, our International Energy Agency (IEA) working group representatives are meeting in Paris in an effort to assimilate the views of the member nations. To implement the decisions and initiatives we have made will require many further weeks of diplomacy with our allies and with our friends. In our efforts, we will work closely with the Congress.

In our view, the most important and immediate aspect of our domestic energy policy is that of reducing our consumption of high-cost imported oil. In the near term, this can only be accomplished by strict adherence to conservation. In his recent economic message, President Ford announced a voluntary program to reduce oil imports by one million barrels a day by the end of 1975. As the members of this committee know, the President has made it clear that we will meet this target and that to do so we will take whatever steps are necessary.

If the voluntary reductions are not adequate to meet our target of reductions, more stringent steps will be taken. Federal agency working groups are now completing intensive studies of possible options for the President to consider. The President will present a coordinated package of administrative and suggested legislative actions to Congress in January. These actions will address the dual problems of reducing our imports and increasing our domestic supplies of energy. In developing its options, the Administration is paying particular attention to the possible effects on the economy and the Federal budget.

In total, the Administration's energy policy is a balanced mix of international and domestic initiatives. We have set clear goals for the Nation and we will work cooperatively with the Congress in achieving them.

Our ultimate goal is one of moving the U. S. from its present non-renewable hydrocarbon energy base to a renewable energy base. This calls for a coordinated effort to make maximum use of oil, gas and coal as well as the development of solar, geothermal, nuclear, and eventually fusion power. The switch over to these latter sources will extend over a period of many years, but what is needed now is a clear national commitment to increase our domestic energy production in areas and forms consistent with market forces. Such a commitment need not, and should not, imply that essential social and environmental concerns must be neglected. On the contrary, such concerns must be fully taken into account. But protection against social abuses must be provided without unduly dampening incentives to expand production.

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NEWS

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FOR IMMEDIATE RELEASE December 17,1974

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 $220 million to $195 million by repayment yesterday of $25 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 RELEASE ON DELIVERY

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REMARKS OF JACK F. BENNETT
UNDER SECRETARY FOR MONETARY AFFAIRS
TREASURY DEPARTMENT
BEFORE THE
NATIONAL ECONOMISTS CLUB
WASHINGTON-HILTON HOTEL
DECEMBER 17, 1974, 1:30 P.M. (EST)

EMERGING PATTERNS IN INTERNATIONAL FINANCE

Ladies and Gentlemen:

Your officers have invited me to talk on a subject which seems to call for some predicting, that is Emerging Patterns in International Finance. I will try to comply with your request, and yet, I would not like to miss this opportunity to say to a distinguished group of economists that I believe more often than not predicting is not the most valuable service an economist can be called upon to perform. And I have observed that officials often are not the best oracles.

I realize that the emphasis on predicting has become so great that the general public thinks of economists largely as predicters -- not very successful predicters perhaps -- but still primarily predicters of GNP, prices, employment, and other broad aggregates. I am sure that predicting will -- and should -- go on, but I hope we can redress the balance a bit to encourage more emphasis on effective analysis of the prospective effects of proposed government policies or proposed corporate acts just on a ceteris paribus basis. Such analysis can be very important even if we are not wise enough to forecast all the ceteris developments we are going to come up against.

For example, regardless of failings which there may have been in controlling our official printing presses in fine conformity with the macro-aggregates over recent years, I think it is now clear in retrospect that our economic woes would be less today had we better used our economic partial analysis to devise national energy policies which left Detroit, its

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suppliers, and all of us less exposed today to cutbacks in foreign oil production. Our construction industry would be better off had we analyzed more effectively in designing our structure of housing finance. Our real income would be suffering less of a setback today had we analyzed better before imposing our particular regulations on our transportation industries.

In this call for more emphasis on economic analysis I hope I shall have the support of most of you, for I suspect more of you are really in important analytical jobs than are in the currently glamorous macro-forecasting business. Of course I'm biased, since I haven't really been in the basic forecasting business for about ten years, and yet I certainly don't feel my years of academic economic training haven't been of great relevance to what I've been up to. Let the forecasters have their headlines. In the long run our analytical work may do more to improve the course of history!

In commenting on the limitations of the forecaster, however, I don't mean to cast aspersions with fine impartiality. Some, I think, have done unusually well, and one whom I have particularly in mind is one of your governors, Ed Fiedler, our Assistant Secretary for Economic Policy at the Treasury. Some time ago Secretary Connally literally presented Ed with the robes and staff or lituus of a Roman augurer -- and he well deserved his recognition. But there is always the danger that an official who is rightfully working so hard to make the future unfold in the right way may in the process lose his objectivity as to how it will actually turn out.

I freely admit I am exposed to that danger, so let me start talking about the emerging international financial trends with some pretty safe recounting of a few of the events scheduled for the next month. Having just spent all weekend in financial talks I am perhaps unusually conscious of all the additional meetings which are scheduled.

First, later this week in Paris there will be a two-day meeting of the Working Group established by the Group of Ten industrialized countries to study the U.S. and other proposals for a new supplemental standby financing facility among the OECD countries.

Next, on December 31 -- not January 1st -- restrictions will be removed on investment by U.S. citizens in gold in bullion form, followed on January 6 by the auction of 2 million ounces of Treasury gold by the Stockpile Disposal Division of GSA.

Then we'll begin a real marathon of financial meetings in Washington. On January 8 and 9, the Working Group will meet again to prepare a report to the G-10 Deputies who will convene on the 10th for three days of meetings. On the 14th, the Ministers of the Group of Ten will meet. On the 15th and 16th, the new IMF Interim Committee of 20 Ministers will meet, and then on the 17th, the new Development Committee of pretty much the same 20 Ministers will meet. And, while all this will be going on, there'll be a series of highly related meetings going on in the new International Energy Agency.

You might ask me to predict what will come out of all this flurry of meetings. That, of course, is harder to say. Perhaps it would be proper for me to put forward my hopes -- with the comment that to me they do not seem to be unreasonable or unrealistic hopes in the light of the recent summit discussions with the Japanese, the Canadians, and several of the European countries.

My first hope is that the Working Group will reach a wide measure of common understanding of the technical aspects of an OECD supplementary safety net and will be able to present the Deputies a short list of substantive issues to be decided in establishing a safety net. I hope then the Deputies can recommend to the Ministers the establishment of such a facility subject to success by the Ministers in reaching agreement on whatever substantive issues the Deputies find they are not capable of resolving. And, naturally, I hope the Ministers can earn their higher pay by reaching agreement on all the crucial principles, so that work can begin in the OECD to establish the final details of the safety-net proposal to be submitted to our legislatures. I hope too, that the legislatures will give their prompt approval, for the confidence given by the facility should facilitate the efforts of all member governments in adopting cooperative approaches in all aspects of their economic and energy policies. Agreement on this intensified form of financial cooperation will provide a more promising atmosphere for useful talks between the governments of the oil consuming nations and the governments of the principal oil exporting nations. And yet, finally, I hope -- and can easily conceive of the possibility -- that the new financial facility will never have to lend at all.

Up to now, the many different existing channels of international capital flow -- private, intergovernmental, and multi-national -- have been serving to bring would-be borrowers and would-be lenders together on reasonable terms despite the rapid changes in the patterns of international trade payments. So far, at least, those existing channels -- assisted by not extremely large loans from the IMF -- have not faced any borrowers with the necessity of accepting loan terms which the international community should have considered unacceptable on either a political or an economic basis. In the coming year, to be sure, the danger will be greater. We must see to our defenses and, in our view, the ready possibility of expanded use of the regular facilities of the IMF should be the first line of defense for all its members. It may well be a sufficient line of defense, but the stakes are large, so it also seems wise to have a second line of defense suitable in size to prevent calamity wrecking the large scale but complex mechanism of economic cooperation among the industrialized contries.

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When the financial Deputies and Ministers gather here next month, it is pretty clear that there will be a wide measure of agreement among them that there will probably be occasions calling appropriately for an expanded volume of IMF loans during the year. There will probably be agreement that the potential resources of the IMF should be expanded by 1976. At the moment, however, I can only express the hope that it will be possible to overcome present differences so that the Fund will be in a position in good time to respond should the need arise.

One issue concerns how the Fund's assistance is to be allocated in the future. Earler this year, in the early days after the shocks of the abrupt oil price increases, agreement was reached on the desirability of setting up in the IMF a temporary so-called oil facility. Funds for IMF to lend from this facility were not obtained in the manner which the IMF had basically used throughout its existence, that is by exercising the IMF's right to call upon the members to lend to the IMF under prescribed procedures. Rather the IMF borrowed the funds from a group of governments, primarily OPEC members, on the strength of the implied guaranty of the other IMF members to make good on the IMF debts in the event there were a default by those to whom the IMF relent the monies. In another change from past procedures whereby the IMF normally lent on the basis of an assessment of the over-all need and the policies of a borrower, the IMF lent semi-automatically from the new facility a proportion of the oil import costs of the borrower.

In my view such short-cut new procedures may have been justifiable as a crisis response to a new situation, but I fear the IMF's future would be damaged if it did not take large steps in 1975 back toward more responsible and normal procedures. There has been long experience indicating that monies borrowed on the strength of guaranties, rather than directly, tend to be more costly to raise and tend to be administered with less care. And it has now become practically meaningless to calculate any country's oil deficit when account is taken, as it should be, of the related new exports to the oil producers, of the investments by the oil producers, of the interest payments to the oil producers, etc., etc. Moreover, the change in oil prices is not the only important factor changing the pattern of world payments. Other products are important too. Even at its present price,oil probably accounts for lees than a fifth of the value of world trade. At prices of a few weeks ago sugar alone among the agricultural products would have had an international trade value in 1975 of $30 to 35 billion, about a third of the value of petroleum.

In these new circumstances it would seem to me both desirable and possible for the IMF to establish procedures which would permit it to approve the desired quantity of loans in 1975 on the basis, not of a very partial indicator such as oil imports, but rather on the basis of the over-all position of each applicant for assistance. Such a purposeful approach should improve the prospects for legislative approval around the world

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for an increase in members' commitments to the IMF for the five years beginning in 1976.

The IMF now has more than ample resources of its own -- well over $10 billion worth -- for its operations in 1975, but an increase in quotas for the next five years is scheduled for consideration and does seem appropriate. Such an increase must, however, be authorized by our legislatures.

It is our hope that the legislatures will support our three-track approach to the current financial situation. First, the expanded availability of resources from the IMF when appropriate for any member nation. Second, the supplemental standby availability of assistance on non-concessionary terms in case of even larger need than could be handled by the IMF for any of the industrialized countries. And third, a temporary additional trust fund to provide longer-term, concessional assistance to a few of the very low income countries most seriously hit by recent price developments. Such assistance could not be provided directly by the IMF if that organization is to preserve -- as it must -- genuine equality of treatment for all its members. But the IMF could provide certain management services on a fee basis. It is our hope that a number of countries in a position to do so will provide loan funds on appropriate terms to the proposed trust fund. And to assist in that effort we have suggested that consideration be given to the sale by the IMF of a small fraction of its gold at the official price. Such gold might be transferred at the official price to the new trust fund, which could then gradually sell off the gold at the higher market price to obtain assistance funds. Or the gold could effectively be sold to the members of the IMF in proportion to their quotas to assist them in supporting the trust fund either by reselling the gold to the trust fund or by making a comparable contribution.

As an additional step to insure that those most in need are properly supported we have also been urging the various international development finance institutions to re-examine their programs without delay. The scarce resources of these institutions must be carefully directed to meet the most urgent needs. For this reason we do not believe that there is any justification today for soft loans from these institutions to any of the oil exporting countries, and ordinary capital loans are unlikely to be justified except possibly in special cases for the poorest of the oil exporting nations when an immediate need for additional foreign exchange can be demonstrated.

After all this discussion some of you may be wondering when I am going to say something about the future of international monetary reform. The first thing I would like to say is that I feel I have been talking about that subject all along -- in the sense that I do not expect a future monetary system to be suddenly adopted all at once. I expect our future monetary arrangements to be developed gradually over time and to be changing in the light of current circumstances. In that sense, the financial adjustments to current circumstances which I have been discussing do constitute monetary reform. There are, in

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addition, however, a number of changes in the Articles of Amendment of the IMF which it seems to me should be agreed in principle, by the Ministers when they meet next month.

One of these concerns the present requirement in the Articles that each government undertake to intervene in the foreign exchange markets to keep the value of its currency within narrowly defined limits. This is a provision being openly ignored by the majority of the members of the Fund. And it is fortunate that they are doing so, because in the light of the rapid economic changes in the world in the past year, any widespread attempt to maintain such margins would probably have led to multiple exchange crises, with consequent instability and difficulties for world trade and investment.

We should seek ministerial agreement in January so that a comprehensive amendment can be submitted to legislatures, together with the request for an increase in quota contributions to the IMF. I, for one, would feel strange asking our Congress to reaffirm our support of the IMF through new financial contributions if a provision were to be retained which we know is not being applied by ourselves and others. It is, nonetheless, very important that governments undertake to cooperate to avoid disorderly foreign exchange markets. But so long as a member is following reasonable guidelines of behavior it should not require the permission of the IMF if it wished to refrain from intervention in order to permit the exchange rate of its currency to respond to market forces.

The Articles of the IMF should also be amended to remove the present discrimination which limits the Fund's ability to make appropriate use of its gold. International monetary authorities are moving away from the concept that there should be an official price of gold. That concept should also be removed from the Articles of the IMF, and that agreement's mandatory provisions for payment in gold should be eliminated. At the same time, the Fund should be allowed like other monetary authorities to make use of its gold by selling in the market when it needs foreign exchange resources. I think we could trust the Executive Directors of the IMF to insure that the Fund did not dump inappropriately large amounts of its gold resources on the market at any one time.

Such sales by the IMF at a market price are, however, some considerable distance in the future because they could be made only after amendment of the Articles and it is unlikely that such amendments could become effective before late next year at the earliest. In the meantime, as I mentioned earlier, it would seem wise to consider making some interim use at the official price of a small portion of the Fund's gold to support a temporary trust fund for the benefit of a few of the most seriously affected less developed countries.

From these remarks I think you can gain the impression that our future international financial arrangements, while they will only gradually evolve, will not emerge unnoticed and unnegotiated. I hope they come our better for all the high level attention they are getting.

Thank you.

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FOR IMMEDIATE RELEASE DECEMBER 18, 1974

USA-ITALIAN INCOME TAX TREATY APPLIES TO NEW ITALIAN TAXES

The Government of the United States and the Italian Government have today announced agreement to the effect that, following the adoption of fundamental changes in Italian tax legislation, the U.S.-Italy Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income of March 30, 1955 shall be considered to be applicable to the Italian income tax on physical persons and to the Italian income tax on juridical persons as of January 1, 1974, the date when the two new taxes came into effect.

An exchange of Notes was entered into between the two Governments which assures the continued application of the Convention without interruption within the aforementioned terms. The announcement was made simultaneously in Washington and in Rome.

Accordingly, the Italian tax on dividends paid by an Italian corporation to a United States resident or to a U.S. corporation not having a permanent establishment in Italy will be limited to 15 percent (or to 5 percent in the case where the United States corporation owns 95 percent of the voting power of the Italian corporation paying the dividend and which satisfies such other qualifications as the Convention provides).

The royalties paid by an Italian licensee to U.S. residents or corporations not having a permanent establishment in Italy shall not be subject to the income tax on physical persons nor to the income tax on juridical persons.

Similarly, in the case of dividends and royalties paid from U.S. sources to Italian residents or corporations, the same limitations or exemptions shall apply as regards U.S. taxes.

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The local tax on income owed in Italy by U.S. residents or corporations shall be applied on the basis of the annual tax declaration of the aforementioned residents or corporations. Such tax is not subject to any withholding at the source.

Both countries have expressed their willingness promptly to begin negotiations designed to update the Convention in light of the modifications made in the tax legislation of the two countries, of the experience gained since it was first signed in 1955 and of the developments in the Organization for Economic Cooperation and Development (OECD) of which both countries are members, as regards the elimination of international double taxation.

The prospective negotiations will also seek to examine, with a view to seeking a possible solution thereof, the problem of the extension of the applicability of the Convention to the aforementioned Italian local income tax, bearing in mind all of the elements relating to such a solution.

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STATEMENT OF THE HONORABLE CHARLES A. COOPER
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY AND THE
SUBCOMMITTEE ON INTERNATIONAL ORGANIZATIONS AND MOVEMENTS
OF THE HOUSE FOREIGN AFFAIRS COMMITTEE
DECEMBER 18, 1974, ROOM 2255, 2:00 P.M.
RAYBURN HOUSE OFFICE BUILDING

I welcome this opportunity to testify on the International Energy Program, and the proposed $25 billion financial safety net. Let me begin by making a few very brief comments on the International Energy Program, which I understand will be covered in detail by Deputy Assistant Secretary Katz and Assistant Administrator Conant.

The need to develop a framework of consumer country cooperation was highlighted by the lack of coordination that characterized the industrialized countries' responses to the oil embargo of last winter. Efforts to develop such a framework were initiated at the Washington Energy Conference of February 1974, which established a twelve-nation Energy Coordinating Group charged with developing an international action program to deal with the world energy situation on a cooperative basis. The International Energy Program, signed in Paris on November 18 by 16 OECD countries accounting for over 80 percent of world oil imports, was the product of the negotiations of this Group.

The U.S. Treasury fully supports this program which we believe represents a major step towards an effective and determined common effort towards energy cooperation and development. We are particularly pleased that internationally agreed limits on the oil imports of each participant during possible future supply emergencies have been established on an agreed basis. This represents a major accomplishment and should help greatly to mitigate the possible price consequences of future supply disruptions which might otherwise be very pronounced were each nation to try to assure itself of its own supplies without any international coordination. The U.S. Treasury is participating in the work of the new International Energy Agency associated with the OECD, and we are confident that this work will prove to be of great benefit to the U.S. in years to come.

I would like to turn now to the U.S. proposals for a financial solidarity agreement and to begin by trying to place this particular proposal in the context of our overall financial strategy.

The U.S. has stressed that the root source of trouble in the world economy today is the present price of oil in world markets. Our proposals for a supplementary financial mechanism is designed to support international cooperation in energy, and is itself in no way a substitute for the determined efforts we believe are needed on the energy front. In general, our impression is that during 1974, oil consuming countries have, for the most part, been able to secure the financing they need from the existing complex of private and public financial mechanisms, including direct placements by the OPEC governments. Nevertheless, we recognize the need to provide an adequate financial safety net for situations in which individual countries might run into potentially serious economic difficulties which the availability of supplementary credit could help forestall.

The thirteen oil exporting nations which are members of OPEC are expected to receive more than $90 billion this year from their exports of oil -- more than four times the amount they received last year -- and about $5 billion from exports of other goods and services. They will spend about one-third of this income on imports.

Funds they do not spend on goods and services they invest. Thus we must expect these countries to invest over $60 billion this year somewhere in the rest of the world.

Our preliminary estimates covering the first eleven months of the year trace about $10-1/2 billion directly to the U.S., about $7-1/2 billion to the UK, perhaps $5 billion to other industrial countries, about $2 billion to the developing countries, and perhaps $3 billion to international financial institutions. Probably at least $18 billion was deposited with banks in the Euro-currency market. Additional funds have no doubt been directed to investment management accounts in Europe, private sector loans and purchases of real estate and corporate securities in Europe and Japan which are not included in these figures.

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All the evidence suggests that these countries have behaved as prudent conservative investors usually behave, choosing their markets and their investment instruments to provide safety as well as income. Funds have been invested in time deposits and certificates of deposit with banks, and in government securities in the U.S. and elsewhere. Loans have been extended directly to a number of governments and there have been direct placements of loans arranged by nationalized industries and other government agencies, particularly in Europe. OPEC countries have bought World Bank bonds and lent money to the IMF. They have extended grants and soft loans to developing countries and contributed to various regional banks. Some funds have been used to finance the takeover of the oil producing companies and there have been a few instances of sizeable purchases of shares in industrial firms operating in Europe.

There is no question that the funds received by the OPEC countries come back to the oil importing states either as payment for goods and services or in the purchase of some kind of financial asset or other claim. There is no "recycling problem" because there is no alternative. However, there may be a "reshuffling problem" -- in the sense that distribution of funds among the oil importing countries may be such as to create serious problems for some countries who may need supplementary access to credit. This is the task to which the U.S. has addressed itself in developing a financial strategy as part of a general approach to the fundamental economic problems created by the sudden increase in the price of oil.

To deal with possible future strains of this kind, the U.S. has suggested a comprehensive approach to multilateral financing. In our view, the IMF would be the first and central track, at the heart of the financing constellation. The IMF would continue to serve as the first line of official multilateral financing for the full range of its membership, following the Fund's basic principle of uniform treatment for all members. We believe that the Fund's existing lendable resources -- some $12-$14 billion -- could be mobilized effectively in 1975. For the longer term, we are prepared in principle to support a substantial increase in Fund resources through a quota increase.

Our proposals for creation of a financial solidarity agreement among the industrial countries in association with the OECD would supplement IMF resources. This is our second track, designed to assist countries in resisting pressures to take restrictive action or to reduce economic activity to lower than desirable levels -- for their own economic and political stability and the health of an increasingly interdependent world.

Our financial insurance scheme is, as I have indicated, designed to support a cooperative energy program. Participants would also undertake to pursue responsible adjustment policies and avoid recourse to restrictive trade measures or other beggar-thy-neighbor policies.

It is important that the facility be large enough to inspire confidence among the participants that in case of real need they will be able to find supplementary financing on reasonable terms. We have recommended a facility with total commitments by all members in the neighborhood of $25 billion in 1975, with provision for additional resources in subsequent years in case of need. Our belief that the facility should supplement existing channels of financing, not replace them, suggests that it should lend on market related terms. It seems to us appropriate that decisions on the provision of financial support should be based on the over-all economic position of the borrowers, not any single criterion such as oil import bills. In practice, it is difficult to distinguish oil deficits from non oil deficits; conventional balance of payments concepts have lost most of their relevance in today's world.

Thus, before granting use of the facility's resources, the participants should be satisfied that the applicant

-- was following appropriate adjustment policies, both domestic and international;

-- was following cooperative energy policies;

-- was not imposing trade or other current account restrictions for balance of payments purposes;

-- was making reasonable use of its reserves and the best possible efforts to obtain capital on reasonable terms from other sources, both private and public.

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Finally, whenever support is provided by the facility, we believe it essential that all members share the credit risk on the basis of their participation. This principle is fundamental to the mutual support system we are suggesting.

Our proposal for a solidarity fund among the industrial countries was formally introduced and discussed at the meetings of the Deputies of the Group of Ten and the OECD's Working Party Three in Paris in late November, as was a similar proposal by the Secretary General of the OECD. No commitments were sought or given; our purpose was to gain understanding and to set out a work program. The Deputies of the Group of Ten agreed unanimously to establish a working party which is now studying the technical aspects of these proposals. This group has met once, will meet again this week and again in early January, with a view to reporting to a meeting of the G-10 Deputies on January 10-13. The G-10 Ministers will convene on January 14 in Washington to consider the work of the Deputies. We hope that this intensive round of discussions and careful study by all participants will establish substantive agreement on the principles of a safety-net proposal such as I have described. I can assure you we will continue to consult fully with the Congress on this proposal, and that we will seek Congressional authorization for U.S. participation in any such facility.

Our third track concerns assistance for the developing countries. Expanded use of IMF resources and the establishment of a new supplementary financial facility associated with the OECD will help insure orderly access to the world's capital markets, and should help many developing countries secure the funds they need and can productively employ. These are the middle range of developing countries which have been doing quite well during recent years -- achieving impressive rates of growth and remarkable export performances. Their demonstrated credit worthiness has enabled them to borrow increasingly on the world's capital markets.

The poorest developing countries, however, most seriously affected by price increases in fuel, fertilizer, and food, need concessional financing. With extremely low levels of income and growth and scant monetary reserves, these countries cannot afford to assume a greater debt burden except on very liberal terms. We have thus suggested the creation of a Trust Fund, managed by the IMF. We would hope that OPEC countries would provide a substantial part of the concessional contributions to the Trust Fund. We have also proposed that the IMF itself might contribute a portion of the profits derived from the sale of a small portion of its gold in the private market. A trust fund of this nature which would offer credit on relatively soft terms --

perhaps 2-4% interest and moderately long maturities -- would channel funds to those most seriously affected on concessional terms not appropriate for other borrowers. We hope that the new IMF/IBRD Development Committee and the Interim Committee will give this suggestion their urgent attention.

I am confident that progress along the three tracks I have described, will make an important contribution to the management of world financial problems in 1975. This in no way implies that the United States or the world should slacken efforts to deal with the more basic problem of world oil prices and supplies. Thank you.

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FOR IMMEDIATE RELEASE DECEMBER 18, 1974

TREASURY SECRETARY SIMON NAMES MAURICE R. TANNER
VOLUNTEER STATE SAVINGS BONDS CHAIRMAN FOR ARIZONA

Maurice R. Tanner, Chairman of the Board and President, The Tanner Companies, Phoenix, Ariz., is appointed volunteer State Chairman for the Savings Bonds Program in Arizona by Secretary of the Treasury William E. Simon, effective immediately. The oath of office will be administered today by Arizona Governor Jack Williams.

He will head a committee of business, banking, labor, government and media leaders who -- in cooperation with the U. S. Savings Bonds Division -- assist in promoting Bond sales in the state. He succeeds Raymond F. Shaffer, President, The Greyhound Corp., Phoenix, who today receives the Treasury Department's "Award of Merit" from Gov. Williams.

Tanner served in the Navy from 1944 to 1946. After completing his service, he attended U.C.L.A., receiving his BA degree in 1948. Immediately after graduation he joined The Tanner Companies, a family-owned firm specializing in construction, the manufacture of construction materials, and real estate and other investments. He became President of the firm in 1950 and Chairman of the Board in December 1967.

Tanner is active in many business, civic and professional activities, including -- Board of Directors, Western Savings and Loan Association; Board of Directors, Arizona Public Service Co.; Vice President, Arizona Employer's Council; member, Arizona Business and Industry Council; member, City of Phoenix Streets Advisory Committee.

He and his wife, the former Hazel Hodges, have four children -- Mrs. Anna L. Zemp, Delbert H., Maurice R., Jr., Marianne -- and two grandchildren.

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FOR IMMEDIATE RELEASE December 19, 1974

WITHHOLDING OF APPRAISEMENT ON
PORTABLE ELECTRIC TYPEWRITERS FROM JAPAN

Assistant Secretary of the Treasury, David R. Macdonald, announced today a withholding of appraisement on portable electric typewriters from Japan pending a determination as to whether they are being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

This decision will appear in the Federal Register of December 20, 1974.

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

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

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

During the period of September 1, 1973 through August 31, 1974, imports of portable electric typewriters from Japan were valued at roughly $16.1 million.

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FOR RELEASE IN A.M. NEWSPAPERS
FRIDAY, DECEMBER 20, 1974

FINAL REGULATIONS AND FORMS FOR FOREIGN PORTFOLIO INVESTMENT STUDY

The Department of the Treasury published today in the Federal Register the final regulations, instructions, and forms for its survey of foreign portfolio investment in the United States, which it promulgated in proposed form on November 1, 1974.

The documents implement Treasury's 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.

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 reports only if they have evidence of foreign investment. Issuers having assets of less than \$1,000,000 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. Exempted are holders of record who hold no more than \$25,000 of United States investments on behalf of foreign persons, parents or guardians acting as custodians for minors, and certain estates and trusts.

For purposes of the reports, 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 equity interest will be reported to the Department of Commerce.

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In addition to corporate interests, the Treasury survey will cover foreign portfolio ownership of securities of Federal, state or local governments or their instrumentalities, limited partnership interests, investment trust certificates, and other evidences of ownership or indebtedness of non-corporate enterprises. Excluded from the survey are debt obligations with an original maturity of one year or less.

The proposed regulations and forms, as published November 1, were open for public comments and suggestions until November 22. The Treasury received comments from individual firms and from business associations whose members are covered by the survey. In addition, a public hearing on the proposed forms and instructions was held by the Office of Management and Budget on November 26.

In response to public suggestions, clarifying and simplifying amendments have been made in the forms and instructions. Reporting firms have also been granted new flexibility in methods of reporting. For example, firms may submit computer tape of the required data in lieu of written reports. The basic scope of the information covered by the survey has not been changed.

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FOR IMMEDIATE RELEASE December 20, 1974

ANTIDUMPING INVESTIGATION INITIATED ON RADIAL BALL BEARINGS FROM JAPAN

Assistant Secretary of the Treasury, David R. Macdonald, announced today the initiation of an antidumping investigation on radial ball bearings from Japan. The merchandise involved includes radial ball bearings, excluding integral shaft bearings, with an outer diameter of at least 9 mm, but not over 100 mm.

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 December 23, 1974.

During the period of January through August 1974, imports of radial ball bearings from Japan were valued at approximately $49 million.

Statement to the Press
by
Jack F. Bennett
Under Secretary for Monetary Affairs
December 20, 1974

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I have been asked whether a foreign government could participate in the January 6, 1975, auction of U.S. Treasury gold.

There is widespread agreement among governments today that the prohibition in the Articles of Agreement of the International Monetary Fund against government purchases of gold at prices above par value plus a prescribed margin should be considered still to remain in force. The U.S. Treasury will, therefore, not knowingly accept in its auction any bid submitted by or on behalf of a foreign government.

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This Wk. 6.963%
Last Wk. 7.058%

Lowest since auction of 10/7/74
6.698%

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This Wk. 7.032%
Last Wk. 6.858%

Highest since auction of 12/9/74
6.911%

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

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.6 billion of 13-week Treasury bills and for $2.0 billion of 26-week Treasury bills, both series to be issued on December 26, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing March 27, 1975			26-week bills maturing June 26, 1975		
	Price	Equivalent Annual Rate		Price	Equivalent Annual Rate	
High	98.256	6.899%		96.486	6.951%	
Low	98.235	6.982%		96.425	7.071%	
Average	98.240	6.963%	1/	96.445	7.032%	1/

Tenders at the low price for the 13-week bills were allotted 61%.
Tenders at the low price for the 26-week bills were allotted 12%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 55,095,000	$ 28,375,000	$ 18,795,000	$ 8,795,000
New York	3,160,340,000	2,235,675,000	2,826,745,000	1,748,545,000
Philadelphia	40,950,000	28,170,000	31,830,000	6,830,000
Cleveland	82,930,000	38,705,000	51,415,000	45,785,000
Richmond	55,030,000	35,010,000	30,125,000	9,525,000
Atlanta	25,845,000	23,620,000	16,535,000	16,235,000
Chicago	178,675,000	64,575,000	154,485,000	48,585,000
St. Louis	41,550,000	25,100,000	26,350,000	14,850,000
Minneapolis	3,550,000	3,550,000	2,785,000	2,735,000
Kansas City	29,665,000	26,255,000	17,280,000	13,740,000
Dallas	61,580,000	16,580,000	12,695,000	12,695,000
San Francisco	179,825,000	74,535,000	205,155,000	71,855,000
TOTALS	$3,915,035,000	$2,600,150,000 a/	$3,394,195,000	$2,000,175,000 b/

a/ Includes $ 378,845,000 noncompetitive tenders accepted at average price.
b/ Includes $ 145,630,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 7.19 % for the 13-week bills, and 7.39% for the 26-week bills.

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FOR IMMEDIATE RELEASE December 20, 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 January 2, 1975, 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 October 3, 1974, and to mature April 3, 1975 (CUSIP No. 912793 WC6), originally issued in the amount of $ 1,893,955,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,200,000,000, or thereabouts, to be dated January 2, 1975, and to mature July 3, 1975 (CUSIP No. 912793 XC5).

The bills will be issued for cash and in exchange for Treasury bills maturing January 2, 1975, outstanding in the amount of $4,710,265,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,706,370,000. 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, December 27, 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 January 2, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 2, 1975. 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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December 20, 1974

FOR IMMEDIATE RELEASE

TREASURY RAISES CASH

The Treasury will raise cash to meet its needs before the January tax payments by selling to the public $2.0 billion in additional amounts of two issues of outstanding notes. Additional amounts of the notes may be issued at the average price of accepted tenders to Government accounts and to Federal Reserve Banks for themselves and as agents for foreign and international monetary authorities.

An additional $1.25 billion of the 7-7/8% notes of May 15, 1979, will be auctioned on Monday, December 30. Bidding will be on the conventional price basis. The payment date will be January 7, 1975; payment may not be made by credit to Treasury tax and loan accounts.

An additional $.75 billion of the 8% notes of March 31, 1976, will be auctioned on Thursday, January 2, 1975. Bidding will be on the conventional price basis. The minimum bid for these notes will be $5,000. The payment date will be January 9, 1975; payment may not be made by credit to Treasury tax and loan accounts.

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For information on submitting tenders: TELEPHONE WO4-2604

FOR IMMEDIATE RELEASE December 20, 1974

TREASURY TO AUCTION $2.0 BILLION OF NOTES

The Treasury will auction to the public up to $0.75 billion of 15-month notes and up to $1.25 billion of 4-year 4-month notes. Additional amounts of these notes may be issued at the average price of accepted tenders to Government accounts and to Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

The notes to be auctioned will be:

an additional amount of the 8% Treasury Notes of Series H-1976 dated April 9, 1974, due March 31, 1976 (CUSIP No. 912827 DS8) with interest payable on March 31, 1975, September 30, 1975, and March 31, 1976, and

an additional amount of the 7-7/8% Treasury Notes of Series D-1979 dated November 6, 1974, due May 15, 1979 (CUSIP No. 912827 DY5) with interest payable on May 15 and November 15.

The notes will be issued in registered and bearer form in denominations of $1,000, $5,000, $10,000, $100,000 and $1,000,000. They will be issued in book-entry form to designated bidders. Delivery of the 15-month bearer notes will be made on January 9, 1975, and delivery of the 4-year 4-month bearer notes will be made on January 7, 1975.

Tenders for the 15-month notes will be received up to 1:30 p.m., Eastern Standard time, Thursday, January 2, and tenders for the 4-year 4-month notes will be received up to 1:30 p.m., Eastern Standard time, Monday, December 30 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 January 1 for the 15-month notes and December 29 for the 4-year 4-month notes. Each tender for the 4-year 4-month notes must be in the amount of $1,000 or a multiple thereof. Each tender for the 15-month notes must be in the minimum amount of $5,000. Tenders over $5,000 must be in multiples of $1,000. Each tender must state the price offered, if a competitive tender, or the term "noncompetitive", if a noncompetitive tender.

Competitive tenders must be expressed on the basis of price, with two decimals, e.g., 100.00. Tenders at a price less than 99.76 for the 15-month notes and 99.01 for the 4-year 4-month notes will not be accepted. Tenders at the highest prices will be accepted to the extent required to attain the amount offered. Successful competitive bidders will be required to pay for the notes at the price they bid. Noncompetitive bidders will be required to pay the average price of all accepted competitive tenders; the price may be 100.00, or more or less than 100.00.

Fractions may not be used in tenders. 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, and his action in any such respect shall

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be final. Subject to these reservations noncompetitive tenders for $500,000 or les for each issue of notes 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 Govern ment securities and borrowings thereon, may submit tenders for the account of custo provided the names of the customers are set forth in such tenders. Others will not permitted to submit tenders except for their own account.

Tenders will be received without deposit from commercial and other banks for th own account, Federally-insured savings and loan associations, States, political sub-divisions or instrumentalities thereof, public pension and retirement and other publ funds, international organizations in which the United States holds membership, fore 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 pe cent 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 t meet the time limits pertaining to checks as hereinafter set forth. Allotment notic will not be sent to bidders who submit noncompetitive tenders.

Payment for accepted tenders for the 4-year 4-month notes must be completed on Tuesday, January 7, 1975, and include accrued interest from November 6, 1974, to January 7, 1975, in the amount of $13.45565 per $1,000 of notes allotted. Payment f accepted tenders for the 15-month notes must be completed on Thursday, January 9, 19 and include accrued interest from September 30, 1974, to January 9, 1975, in the amo of $22.19780 per $1,000 of notes allotted. Payment must be in cash, in other funds immediately available to the Treasury by the payment date or by check drawn to the o 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, January 3, 1975, for the 4-year 4-month not and Monday, Jan. 6,1975, for the 15-month notes if the check is drawn on a bank the Federal Reserve District of the Bank to which the check is submitted, or the Fif Federal Reserve District in case of the Treasury, or (2) Tuesday, December 31, 1974, for the 4-year 4-month notes and Thursday, January 2, 1975, for the 15-month notes i the check is drawn on a bank in another district. Checks received after the dates s 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 wi 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.

Commercial banks are prohibited from making unsecured loans, or loans collateralized in whole or in part by the notes 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 bi for under this offering at a specific rate or price, until after the closing hour fo the receipt of tenders for each particular issue.

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

FOR IMMEDIATE RELEASE 236 December 20,1974

BENNETT RECEIVES ALEXANDER HAMILTON AWARD

Under Secretary for Monetary Affairs Jack F. Bennett has been presented the Alexander Hamilton Award in recognition of distinguished leadership in the Department of the Treasury. The Alexander Hamilton Award in the Department's highest honor.

Treasury Secretary William E. Simon, who presented the award, said of Bennett, "he has served three Treasury Secretaries with great distinction. Jack Bennett has demonstrated unusual competence and a firm grasp of the extraordinary technical complexities of his responsibilities."

The award citation also stated that Bennett "has represented the United States with distinction on the senior economic councils of our trade and monetary partners and he has assisted the Secretary with great skill and tireless energy in negotiations with Finance Ministers and heads of state.

"In overseeing the Treasury's role in monetary affairs, international finance and fiscal operations... his wise counsel and leadership have repeatedly resulted in the development and implementation of a sound and appropriate course for the government."

"Mr. Bennett's contributions to his country, the Department of the Treasury and his associates there, are uniquely worthy of the highest Department citation and honor."

Bennett came to the Treasury as Deputy Under Secretary in March, 1971. He became Under Secretary in March, 1974 and was sworn in as Under Secretary for Monetary Affairs on July 9, 1974. He and his wife, the former Shirley Elizabeth Goodwin, have four children.

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

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FOR IMMEDIATE RELEASE December 23,1974

SCHMULTS RECEIVES ALEXANDER HAMILTON AWARD

Treasury Under Secretary and former General Counsel, Edward C. Schmults, received the Alexander Hamilton Award December 19. The award is the Department's highest honor.

In presenting the award, Treasury Secretary William E. Simon said, "Ed's broad legal background, experience and his exceptional ability to recognize and deal with problems have given him unusual stature in the Department. Ed Schmults has served two Treasury Secretaries with competence and distinction."

The award citation additionally stated that Schmults "has represented the Secretary ably before legislative committees and on interagency councils. His work in a variety of specialized fields has made an important contribution to the passage of significant legislation and the development of government regulations.

"As the senior official responsible for administration in the Department, Mr. Schmults' leadership has set an example that has earned him the respect of those who have served under him.... and the highest Department citation and honor."

A graduate of Yale and the Harvard Law School, Schmults was a partner of the law firm of White & Case before joining the Treasury in June, 1973.

He and his wife, the former Diane Beers, have three children. They reside in Chevy Chase, Maryland.

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FOR IMMEDIATE RELEASE December 23,1974

ROOB RECEIVES EXCEPTIONAL SERVICE AWARD

Edward M. Roob, Special Assistant for Debt Management, received the Treasury Exceptional Service Award in ceremonies December 19. The award, presented by Treasury Secretary William E. Simon, comes on the eve of Mr. Roob's departure from the Department.

In making the presentation, Simon stated, "In his nearly two years as Special Assistant, Ed Roob has shown exemplary skill and professionalism in a period of extraordinary economic fluctuation and change." Simon also noted that "his superb training and depth of understanding have been unique assets to the Treasury."

The Exceptional Service Award is issued in the highest tradition of commendatory service to the Secretary, the Department and the United States Government.

Mr. Roob jointed Treasury in April, 1973, after a banking career with First National of Chicago. Commenting on his government service, he said he found it "continually exciting and interesting, with a particular sense of involvement." He said that he was especially proud of his work in developing the Federal Financing Bank, where, in addition to his Treasury duties, he was Vice President.

A native of Chicago, Roob holds degrees from DePauw University and the University of Chicago. He and his wife, the former Barbara Leske, have three children.

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

FOR IMMEDIATE RELEASE 239 December 23, 1974

MINTZ RECEIVES EXCEPTIONAL SERVICE AWARD

Assistant Personnel Director Sidney Mintz received the Treasury Exceptional Service Award in ceremonies December 19. The award caps 13 years of Treasury service for Mintz, who retires from the Department later this month. He joined Treasury in December, 1961.

In conferring the award, Treasury Secretary William E. Simon said, "Sidney Mintz has played a key role in the development of the Department's personnel management policies and programs. Under his direction, participation in training programs by Treasury employees at all echelons has greatly increased." Mintz has been responsible for the Department's training and incentive awards programs since 1966.

The award citation also said, "Mr. Mintz' leadership in the Incentive Awards Program has gained the Department a reputation for having one of the most effective awards programs in the Federal Government.

"Through his efforts, the Department issued enabling guidelines for a Treasury-wide Executive Development Program, and because of these efforts each bureau now has an ongoing executive development program."

Mintz is married to the former Dorothy Barker, and they have three daughters.

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

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FOR IMMEDIATE RELEASE DECEMBER 23, 1974

TREASURY SECRETARY SIMON NAMES RICHARD B. SELLARS SAVINGS BONDS CHAIRMAN FOR NEW JERSEY

Richard B. Sellars, Chairman of the Board and Chief Executive Officer, Johnson & Johnson, New Brunswick, N. J., is appointed volunteer State Chairman for the Savings Bonds Program in New Jersey by Secretary of the Treasury William E. Simon, effective immediately.

He will head a committee of business, banking, labor, government and media leaders who -- in cooperation with the U. S. Savings Bonds Division -- assist in promoting Bond sales in New Jersey. He succeeds Elmer H. Bobst, Honorary Chairman of the Board, Warner-Lambert Pharmaceutical Co., Inc., Morris Plains, who is named State Chairman Emeritus after 30 years as Chairman. Sellars has previously served the Bond Program as a member of the U. S. Industrial Payroll Savings Committee in 1972 and 1973.

Sellars was born September 9, 1915, in Worcester, Mass. He attended American International College, Springfield, Mass., and Maryville College, Maryville, Tenn., before entering the business world in 1936 with the brokerage firm of Tifft Brothers, Springfield.

In 1939, he joined General Line, a Johnson & Johnson subsidiary, as a sales representative. The next year, Sellars transferred to Johnson & Johnson's Ortho Pharmaceutical division, becoming Vice President and General Manager of Ortho's Canadian branch in 1941. In 1945, he returned to the U. S. as Assistant to the President of Ortho, where he was responsible for the establishment of manufacturing and sales organizations in England and Scandinavia. After being named a Vice President and Director of Ortho in 1948, he moved to another Johnson & Johnson subsidiary -- Ethi-

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con, Inc. -- as Assistant General Manager in 1949. Later that year, he was named President of Ethicon, and in 1950 he was elected to the Board of Directors of Johnson & Johnson.

Sellars was named Chairman of the Boards of Ethicon and Ortho and a member of the Johnson & Johnson Executive Committee in 1957. In 1965, he was appointed Vice Chairman of Johnson & Johnson International, and Chairman of both Johnson & Johnson Ltd., Great Britain, and Codman & Shurtleff, Inc. In April 1970, he was elected President of Johnson & Johnson Worldwide, and later that year became President of Johnson & Johnson International. He assumed his present post in April, 1973.

He has long been active in many business, civic and professional activities, including -- United States Committee of the World Medical Association, Economic Club of New York, United States Committee for the United Nations, Chief Executives Forum, Somerset County Park Commission, New Brunswick Chamber of Commerce and Somerset Hospital.

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federal financing bank NEWS
WASHINGTON, D.C. 20220
Press inquiries: 202-964-2615

FOR IMMEDIATE RELEASE December 23, 1974

SUMMARY OF LENDING ACTIVITY
DECEMBER 9 - DECEMBER 20, 1974

Federal Financing Bank lending activity for the period December 9 through December 20 was as follows:

On December 12, the Bank purchased $350,000 notes from the Department of Health, Education and Welfare at an interest rate of 8%. These notes were previously purchased by HEW under the Medical Facilities Loan Program.

On December 12, the Bank closed a $4,435,000 15-year loan with the United States Railway Association. The loan is guaranteed by the Department of Transportation. Proceeds will be used to purchase locomotives for the Lehigh Valley Railroad. The interest rate is 8%.

On December 13, the Bank signed a $107 million commitment with General Services Administration to finance eight new public building projects. GSA will make monthly drawings against this commitment.

On December 18, the Bank purchased $4,570,000 of Small Business Investment Company 10-year debentures at an interest rate of 7.70%. These debentures are guaranteed by the Small Business Administration.

On December 19, Amtrak, the National Railroad Passenger Corporation, made a $8.3 million drawing against the $100 million commitment signed October 11, 1974. The interest rate on this drawing is 7.41%. This brings the amount borrowed under the October commitment to $37.9 million.

Federal Financing Bank loans outstanding presently total $4.3 billion. Unfilled commitments total $4 billion.

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November 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	19	.06
Series J and K-1952 thru 1957	3754	3748	5	.13
UNMATURED				
Series E 3/:				
1941	1937	1760	177	9.14
1942	8551	7751	801	9.37
1943	13752	12481	1271	9.24
1944	16057	14502	1555	9.68
1945	12651	11287	1364	10.78
1946	5780	5012	768	13.29
1947	5519	4660	859	15.56
1948	5727	4761	965	16.85
1949	5690	4655	1035	18.19
1950	4999	4037	962	19.24
1951	4324	3493	832	19.24
1952	4536	3640	897	19.78
1953	5204	4100	1104	21.21
1954	5320	4131	1189	21.45
1955	5544	4267	1277	23.03
1956	5357	4095	1261	23.54
1957	5058	3823	1235	24.42
1958	4952	3657	1294	26.13
1959	4650	3402	1249	26.86
1960	4686	3339	1347	28.75
1961	4787	3301	1487	31.06
1962	4667	3142	1525	32.65
1963	5261	3367	1894	36.00
1964	5127	3292	1835	35.79
1965	5015	3201	1815	36.19
1966	5438	3342	2096	38.54
1967	5386	3261	2125	39.45
1968	5067	3040	2027	40.00
1969	4780	2772	2008	42.01
1970	5020	2660	2359	47.00
1971	5787	2686	3101	53.59
1972	6388	2587	3801	59.50
1973	6318	2237	4081	64.59
1974	4576	881	3694	80.73
Unclassified	750	628	121	16.13
Total Series E	204660	149250	55411	27.07
Series H (1952 thru May, 1959) 3/	5485	4143	1343	24.48
H (June, 1959 thru 1974)	9986	3595	6388	63.97
Total Series H	15471	7738	7731	49.97
Total Series E and H	220131	156988	63142	28.68
All Series: Total matured	38278	38248	28	.07
All Series: Total unmatured	220131	156988	63142	28.68
All Series: Grand Total	258409	195236	63170	24.45

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 December 23, 1974

RESULTS OF AUCTION OF 2-YEAR TREASURY NOTES

The Treasury has accepted $2.0 billion of the $2.8 billion of tenders received from the public for the 2-year notes auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	7.15% 1/
Highest yield	7.37%
Average yield	7.32%

The interest rate on the notes will be 7-1/4%. At the 7-1/4% rate, the above yields result in the following prices:

Low-yield price	100.183
High-yield price	99.781
Average-yield price	99.872

The $2.0 billion of accepted tenders includes 39% 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, $0.3 billion of tenders were accepted at the average-yield price from Government accounts and from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

1/ Excepting 5 tenders totaling $5,180,000

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DEPARTMENT OF THE TREASURY

TREASURY DEPARTMENT ORDER NO. 234

DIRECTIVE TO SELL GOLD

By virtue of the authority vested in me as Secretary of the Treasury by Section 9 of the Gold Reserve Act of 1934 (31 U.S.C. 733) and Reorganization Plan No. 26 of 1950, I hereby authorize and direct the Under Secretary for Monetary Affairs, Jack Bennett, to take all necessary and proper measures, including direction of other officials of the Department and utilization of the services of other government agencies, for the public sale of 2,000,000 fine troy ounces of gold on January 6, 1975.

William E. Simon

William E. Simon

Dated: December 18, 1974

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DEPARTMENT OF THE TREASURY

TREASURY DEPARTMENT ORDER 221-3

TRANSFER OF FUNCTIONS TO THE
BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

By virtue of the authority vested in me as Secretary of the Treasury, including the authority in Reorganization Plan No. 26 of 1950, it is ordered that:

1. There is hereby transferred, as specified herein, the functions, powers and duties of the Internal Revenue Service arising under laws relating to wagering, to the Bureau of Alcohol, Tobacco and Firearms (hereinafter referred to as the Bureau).

2. The Director of the Bureau shall perform the functions, exercise the powers, and carry out the duties of the Secretary in the administration and enforcement of the following provisions of law: Chapter 35 and Chapters 40 and 61 through 80, inclusive, of the Internal Revenue Code of 1954 insofar as they relate to activities administered and enforced with respect to Chapter 35.

3. All functions, powers and duties of the Secretary which relate to the administration and enforcement of the laws specified in paragraph 2 hereof are delegated to the Director. Regulations for the purposes of carrying out the functions, powers and duties delegated to the Director may be issued by him with the approval of the Secretary.

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4. All regulations prescribed, all rules and instructions issued, and all forms adopted for the administration and enforcement of the laws specified in paragraph 2 hereof, which are in effect or in use on the effective date of this Order, including amendments thereto, shall continue in effect as regulations, rules, instructions and forms of the Bureau until superseded or revised.

5. All existing activities relating to the assessment, collection, processing, depositing, or accounting for taxes (including penalties and interest), under the laws specified in paragraph 2 hereof, shall continue to be performed by the Commissioner of Internal Revenue until the Director shall otherwise provide with the approval of the Secretary.

6. (a) The term "Commissioner of Internal Revenue" whenever used in regulations, rules, instructions, and forms issued or adopted for the administration and enforcement of the laws specified in paragraph 2 hereof, which are in effect or in use on the effective date of this Order, shall be held to mean the Director.

(b) The term "internal revenue officer" and "officer, employee or agent of the internal revenue" wherever used in such regulations, rules, instructions and forms, in any law specified in paragraph 2 above, and in 18 U.S.C. 1114, shall include all officers and employees of the United States engaged

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in the administration and enforcement of the laws administered by the Bureau, who are appointed or employed by, or pursuant to the authority of, or who are subject to the directions, instructions or orders of, the Secretary.

7. All delegations inconsistent with this Order are revoked.

8. This Order shall be effective immediately.

William E. Simon

Secretary of the Treasury

Date: December 24, 1974

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
726 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20506

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FOR IMMEDIATE RELEASE
Thursday, December 26, 1974

For information call:
(202) 456-6757

MEMORANDUM FOR CORRESPONDENTS:

Attached is a copy of the Council on Wage and Price Stability's submission of comments to the National Highway Traffic Safety Administration regarding its Notice dated December 16, 1974 [See 39 F.R. 43639] on the question of whether the effective dates of Standard 121, Air Brake Systems, ought to be postponed in the light of current economic conditions.

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CWPS-18

Attachment

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BEFORE THE

NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION

MOTOR VEHICLE SAFETY STANDARD NO. 121
AND
DOCKET 74-10; NOTICE 8

AIR BRAKE SYSTEMS

COMMENTS OF THE COUNCIL ON WAGE AND PRICE STABILITY REGARDING POSTPONEMENT OF EFFECTIVE DATES

The Council on Wage and Price Stability (CWPS) hereby submits comments as requested by the National Highway Traffic Safety Administration in its Notice dated December 16, 1974 [See 39 F.R. 43639] on the question of whether the effective dates of Standard 121, Air Brake Systems, ought to be postponed in the light of current economic conditions.

The Council on Wage and Price Stability was created by Public Law 93-387 on August 24, 1974. In addition to its duties of monitoring overall levels of wages and prices, the Council has the express statutory mandate 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." [Public Law 93-387, Sec. 3(a)(7)]. Consequently, our interest in this proceeding parallels the interest stated by the National Highway Traffic Safety Administration (NHTSA) in its Notice of December 16, 1974, namely, to see that the economic implications of the adoption of Standard 121 are fully understood.

It is not the position of CWPS that any governmental activity which imposes additional costs upon the economy as a whole or upon some segment of it is by definition "inflationary" and ought, therefore, to be curtailed. However, the current heightened concern over inflation requires that agencies proposing cost-increasing activities be particularly careful to assure both themselves and the public that the tangible and intangible benefits of such programs indeed exceed the costs they will cause others to bear. Agencies have a particular duty to reexamine past decisions in the light of changed economic circumstances - such as the recent substantial increases in the cost of fuel and other materials - to see that such decisions are still justified. Furthermore, we believe that agencies are justified in making maximum

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use of whatever administrative discretion they have concerning the timing of the implementation of rules, regulations, and standards if by doing so short-run inflationary pressures can be eased. This is especially true where a particular segment of the economy has been or is likely to be confronted with a large number of costly governmental actions all of which may be implemented over a relatively short period of time.

We commend the NHTSA for its apparent willingness to undertake such an analysis. We urge other agencies to emulate NHTSA in reexamining their programs and policies to determine if similar changes in either dates of implementation or methods of administration might not be appropriate.

The comments that follow are intended to assist NHTSA in its reevaluation of Standard 121 and in any other similar analyses that it will perform in the future.

In its Notice of December 16, 1974, NHTSA stated "The NHTSA has previously concluded, of course, that the public benefits of the resulting improvements in braking capacity would outweigh the costs." The Notice gives no indication, however, of the evidence upon which this conclusion is based. Furthermore, our analysis of the public record surrounding the promulgation of Standard 121 does not reveal the existence of any study directed to this subject, though it is possible, of course, that internal staff studies exist. If they do, we consider it crucial that they be made public so that it can be determined if NHTSA's conclusions bear up under scrutiny.

Our own very preliminary analysis based upon public data indicates that the benefits that improved truck braking capabilities will have to generate will indeed have to be large in view of the costs they will impose upon the economy. We believe that the capital costs alone of meeting Standard 121 may run to as much as $400 million per year. [See Attachment 1]. In addition, the installed systems certainly would require maintenance and would add weight to trucks, thereby raising operating costs and reducing potential freight revenues, particularly for the numerous larger over-the-road vehicles. One truck manufacturing executive recently stated that the lost revenues alone as a result of the added weight penalty of meeting Standard 121 might amount to as much as $660 per year for a five axle rig. ["Cost-Benefit Studies Urged in Safety, Environmental Laws," Transportation Topics, November 18, 1974.] We do not mean to endorse this calculation - it appears to us to be an overestimate of the revenue loss that might realistically occur in actual practice. Yet factors such as revenue loss, increased fuel consumption due to higher weight, and increased maintenance expenditures are all factors that ought to be considered explicitly in any NHTSA analysis.

CWPS further would suggest that any analysis performed by NHTSA concerning the economic impact of Standard 121 be based upon the most recent data concerning highway accidents. It has been widely reported in the news media that highway fatality rates have declined dramatically since the imposition of the 55 mph maximum speed limit by many States during the fuel crisis last year. Recently Congress voted to make this new limit permanent on the Interstate Highway System. In addition, Congress has just voted to allow higher weight limits for trucks operating on Interstate highways. Each of these factors ought to have a significant impact on the benefits resulting from improved braking performance and both ought to receive explicit consideration in any analysis conducted by NHTSA.

Finally, NHTSA should examine alternative means of improving truck braking performance which, while they may not achieve all the goals currently embodied in Standard 121, nevertheless promise substantial improvements over current performance levels at much lower costs.

We therefore request that NHTSA postpone indefinitely the implementation of Standard 121 pending a detailed, formal study of its economic impact. We urge that this study consider the factors we have raised and that, when completed, it be made a part of the public record so that interested parties, including CWPS, can critique it. Indeed, we believe that all major standard setting actions proposed by NHTSA should be the subject of formal economic impact analysis and that this analysis should always be a matter of public record.*/

Respectfully Submitted,

George C. Eads
Assistant Director
Government Operations and
Research

26 December 1974

*/ The National Traffic and Motor Vehicle Safety Act of 1966 provides that the Secretary of Transportation, and by his delegation NHTSA, shall consider "whether any such proposed standard is reasonable, practicable and appropriate. . . ." 15 U.S.C. Sec. 1392(f)(3). This language can be interpreted, as it is CWPS' understanding that NHTSA has, to direct the Secretary and NHTSA to consider the economic impact of a proposed motor vehicle safety standard.

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Attachment 1

Estimated Capital Costs of Implementing Standard 121
(Air Brake Systems)

1973 Data

(1) Gross Vehicle Weight(lbs.)	(2) Number of Vehicles Affected[1/]	(3) Total Costs (000)[2/]
Tractors/Trucks/Buses		
19,501 - 26,000	67,699 - 101,650	$67,699 - $101,650
26,001 - 33,000	42,200	$42,200
OVER 33,000	165,920	$165,920
Semi-Trailers		
Not Available	165,641	$123,481
	Total	$399,300 - $433,251[3/]

[1/] For tractors/trucks/buses, see Attachment 2. For semi-trailers, see Attachment 3.

[2/] For tractors/trucks/buses, Col. (2) x $1000/vehicle; for semi-trailers, Col. (2) x $750/vehicle. These cost figures are based upon the following assumptions:

For tractors/trucks/buses: a) two axles per vehicle equipped with antilocks; b) cost of $500/axle or $1000/vehicle; c) installation limited to weight categories shown.

For semi-trailers: a) one-half assumed to be part of combination vehicles with 5 or more axles, thus having a minimum of two axles per trailer; the other half assumed to have only one axle (these assumptions are consistent with the most recent data on U.S. truck inventory); b) cost of $500/axle or an average of $750/vehicle.

[3/] The comparable figures based upon 1972 data would be $355,033 - $385,037.

Attachment 2

Factory Sales of Tractors, Trucks and Buses By
Gross Vehicle Weight
Calendar Year 1972 and 1973

1972

GVW Category (lbs.)	Number of Vehicles Sold	Estimated Vehicles Affected By Standard 121: Percent (%)	Estimated Vehicles Affected By Standard 121: Number
6,001 - 10,000	584,612	Nil	Nil
10,001 - 14,000	44,221	Nil	Nil
14,001 - 16,000	9,945	Nil	Nil
16,001 - 19,500	28,080	Nil	Nil
19,501 - 26,000	182,058	33 - 50	60,625 - 91,029
26,001 - 33,000	44,213	100	44,213
OVER 33,000	141,127	100	141,127
Totals	1,034,256		245,965 - 276,369

1973

GVW Category (lbs.)	Number of Vehicles Sold	Estimated Vehicles Affected By Standard 121: Percent (%)	Estimated Vehicles Affected By Standard 121: Number
6,001 - 10,000	761,481	Nil	Nil
10,001 - 14,000	44,724	Nil	Nil
14,001 - 16,000	7,477	Nil	Nil
16,001 - 19,500	18,941	Nil	Nil
19,501 - 26,000	203,300	33 - 50	67,699 - 101,650
26,001 - 33,000	42,200	100	42,200
OVER 33,000	165,920	100	165,920
Totals	1,244,043		275,819 - 309,770

Source: "1974 Motor Truck Facts", Motor Vehicle Manufacturers Association of the U.S., Inc. p.9.

Notes: The estimated percentage of vehicles equipped with air brake systems was obtained from MVMA staff personnel.

Vehicles over 19,501 lbs., accounted for about 33 percent of all vehicles sold over 6,000 lbs. GVW for 1973.

Factory Shipments of Semi-Trailers: 1969-1973

Year	Completed Trailers and Chassis (Except Detachables)	Detachable Trailer Chassis (Sold Separately)
1969	138,347	(Not Available)
1970	150,709	"
1971	103,784	"
1972	145,424	"
1973	164,641	12,790

Source: U. S. Department of Commerce, Bureau of the Census (Truck Trailers). Census data provided by Motor Vehicle Manufacturers Association staff personnel.

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FOR RELEASE 6:30 P.M. December 27, 1974

RES 13-wk 26-wk IONS

Tenders for $2 Last s and for $2.2 billion of 26-week Treasury week January 2, 1975, were opened at the details are as follows:

6.963 7.032

RANGE OF ACCEPTED COMPETITIVE BIDS: -week bills g July 3, 1975

			Equivalent Annual Rate	
High			7.046%	
Low	7.113	Today 7.101	7.133%	
Average			7.101%	1/

a/ Excepting 1 te

High since 7.172 12/9/74

Tenders at t were allotted 44%.
Tenders at t were allotted 44%.

TOTAL TENDERS APPL ERVE DISTRICTS:

12/2/74 7.564

District	App		d For	Accepted
Boston	$		,760,000	$ 11,760,000
New York	3,		,705,000	1,833,065,000
Philadelphia			,995,000	12,995,000
Cleveland	37,600,000	37,600,000 :	42,970,000	17,410,000
Richmond	24,290,000	24,290,000 :	21,525,000	17,025,000
Atlanta	28,475,000	28,475,000 :	14,350,000	14,350,000
Chicago	167,610,000	117,010,000 :	177,155,000	87,975,000
St. Louis	37,105,000	29,105,000 :	28,675,000	17,275,000
Minneapolis	3,215,000	3,215,000 :	3,715,000	3,715,000
Kansas City	47,345,000	46,945,000 :	19,865,000	17,465,000
Dallas	22,915,000	19,915,000 :	20,740,000	12,740,000
San Francisco	143,055,000	115,055,000 :	264,245,000	154,245,000
TOTALS	$3,749,595,000	$2,700,035,000 b/	$3,703,700,000	$2,200,020,000 c/

b/ Includes $358,540,000 noncompetitive tenders accepted at average price.
c/ Includes $188,950,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 7.34% for the 13-week bills, and 7.47% for the 26-week bills.

GLY RAA R. Payne

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FOR RELEASE 6:30 P. ember 27, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.7 billion of 13-week Treasury bills and for $2.2 billion of 26-week Treasury bills, both series to be issued on January 2, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 3, 1975		26-week bills maturing July 3, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.232 a/	6.994%	96.438	7.046%
Low	98.188	7.168%	96.394	7.133%
Average	98.202	7.113% 1/	96.410	7.101% 1/

a/ Excepting 1 tender of $395,000

Tenders at the low price for the 13-week bills were allotted 44%.
Tenders at the low price for the 26-week bills were allotted 44%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 38,150,000	$ 26,590,000	$ 21,760,000	$ 11,760,000
New York	3,169,535,000	2,221,535,000	3,054,705,000	1,833,065,000
Philadelphia	30,300,000	30,300,000	33,995,000	12,995,000
Cleveland	37,600,000	37,600,000	42,970,000	17,410,000
Richmond	24,290,000	24,290,000	21,525,000	17,025,000
Atlanta	28,475,000	28,475,000	14,350,000	14,350,000
Chicago	167,610,000	117,010,000	177,155,000	87,975,000
St. Louis	37,105,000	29,105,000	28,675,000	17,275,000
Minneapolis	3,215,000	3,215,000	3,715,000	3,715,000
Kansas City	47,345,000	46,945,000	19,865,000	17,465,000
Dallas	22,915,000	19,915,000	20,740,000	12,740,000
San Francisco	143,055,000	115,055,000	264,245,000	154,245,000
TOTALS	$3,749,595,000	$2,700,035,000 b/	$3,703,700,000	$2,200,020,000 c/

b/ Includes $358,540,000 noncompetitive tenders accepted at average price.
c/ Includes $188,950,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 7.34% for the 13-week bills, and 7.47% for the 26-week bills.

GLY RAA R. Payne

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Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE December 30, 1974

OFFICE OF ECONOMIC STABILIZATION

CEASES AS OF DECEMBER 31, 1974

By Executive Order 11788, the Office of Economic Stabilization terminates at midnight December 31, 1974. That order provided that the Treasury Department take over the final operations of the Cost of Living Council July 1, 1974, and by Treasury Order #233 the Treasury Secretary delegated OES responsibility to the Assistant Secretary (Administration).

With the formal termination of all OES activities, a number of contact points have been established within the Treasury Department for the variety of Stabilization-related questions that could arise.

- Information on the Historical Working Papers and other public documents of the Program may be obtained through the Office of Public Affairs, Department of the Treasury, 964-8706 or 964-2041.

- Litigation and case matters should be referred to the Office of the General Counsel, Department of the Treasury, 964-2852.

- Questions regarding Stabilization Program records or public disclosure information should be referred to the Stabilization Records Office, 2000 M Street, N. W., Washington, D. C. 20508, 254-8546.

For further information on the termination of the Office of Economic Stabilization contact Richard J. Garvey at 254-3203.

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FOR IMMEDIATE RELEASE December 30, 1974

OFFICE OF ECONOMIC STABILIZATION

ISSUES HISTORICAL WORKING PAPERS

The Department of the Treasury today released a three-volume set of historical working papers on the Economic Stabilization Program and announced the formal cessation of the activities of the Office of Economic Stabilization (OES), which was established on July 1, 1974, to complete and chronicle the affairs of the Cost of Living Council (CLC).

Noting a number of achievements, Director of the OES, Henry H. Perritt, Jr. said, "In addition to resolution of virtually all case matters, this six month effort has produced as a written legacy of the Nation's recent wage and price control program in the form of a three-volume history of selected aspects of policy and operations of the Stabilization Program. This Historical Working Papers on the Economic Stabilization Program, 1971-1974 is intended to be of use to present and future students and practitioners of economic policy making. In individually authored articles, the compendium covers such diverse areas as policy planning, the policy of selective decontrol, data systems and the interaction between Congress and the Executive Branch on Stabilization Program matters."

These three volumes, one of which is a data appendix, are available for purchase through the Government Printing Office and will be found in selected Federal depository libraries across the country as well as the Treasury Department Library in Washington, D. C. In addition, a collection of most of the public documents of the Program is available to the public on microfiche in key depository libraries as well as the Library of Congress, and the Treasury Department Library.

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The Office of Economic Stabilization was established by Executive Order #11788 on June 19, 1974, directing that the office would:

- Provide for the continuation of any action or pending proceedings, civil or criminal, not finally determined prior to May 1, 1974.

- Continue to receive reports and review price and pay adjustments with respect to work performed or prices charged prior to May 1, 1974.

- Receive and properly dispose of all records of the Cost of Living Council.

- Provide for the compilation of a history of the Economic Stabilization Program.

- Terminate its activities no later than December 31, 1974.

The Office has substantially completed all of its tasks and in accordance with the order is being disbanded, effective tomorrow, December 31. To the extent that further actions may be required after December 31, 1974, the authority will be exercised by the Assistant Secretary (Administration) of the Treasury, pursuant to an appropriate Treasury order.

During its six month existence, the Office of Economic Stabilization processed and adjudicated over 1,000 separate reports and cases on wage and price matters falling under the jurisdiction of the Economic Stabilization Act, which expired on April 30, 1974. During this time period the OES also assisted the Department of Justice with litigation actions relating to Stabilization activities. A number of compliance and litigation matters are still outstanding and any remaining action in these cases will be taken by the Justice Department.

In pursuit of compliance activities, Mr. Perritt pointed out that "During the tenure of the OES, the Government collected some $820,000 in settlements from corporations found to be in violation of Stabilization Program regulations as a result of OES compliance activities."

Since July 1, 1974, the OES had also been active in attempting to find positions for former Cost of Living Council (CLC) employees. This effort, begun in early 1974, resulted in nearly 90% of CLC employees accepting job opportunities elsewhere in the government or private sector.

FACT SHEET ON <u>HISTORICAL WORKING PAPERS ON THE</u>

<u>ECONOMIC STABILIZATION PROGRAM 1971-1974</u>

<u>Background</u>

- The effort was conceived in early 1974 and begun in June under the auspices of the Cost of Living Council. This activity was transferred to the Office of Economic Stabilization on July 1, 1974.

- There are three volumes in this compendium; one of which is a data appendix.

- There are 17 separate working papers in the collection.

- This collection was prepared primarily by former Stabilization Program employees with the assistance of some 15 summer interns, over a five month period beginning in June of 1974.

- Numerous former program personnel reviewed drafts and participated in roundtable discussions on the different aspects of the program included in the compendium.

- The articles are individually authored and the views contained in each represent the opinion of the authors, based on their own research and judgment.

- There is little, if any evaluative material on program policy or on the economic effects of the controls program. Any such material represents only the opinion of the individual authors.

- <u>None</u> of these papers represent an official government view.

- The data in the data appendix have been carefully screened, according to accepted statistical procedures, to safeguard proprietary data.

- Data sets that would otherwise be proprietary if presented for an individual firm are produced in aggregated form by four-digit Standard Industrial Classification (SIC) codes.

<u>The Subject Matter</u>

- A list and short synopsis of each paper follows.

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LIST OF SUBJECT MATTER

POLICY PLANNING

This paper discusses the development of economic policy just prior to and during the Economic Stabilization Program in the context of the economic and political pressures that influenced the development of wage and price controls. The paper focuses not on economics but on the policy formation process. It traces the way in which different economic strategies emerged from differing economic and political circumstances, and from the differing objectives and viewpoints of various policy makers.

CONGRESS AND CONTROLS

The Economic Stabilization Program was based upon the authority vested in the President by the Economic Stabilizaton Act of 1970. This paper, in reviewing the legislative history of the Act, describes the interaction between the Program and the Congress, and traces the evolving Congressional attitude toward wage and price controls during the period 1970 to 1974.

PRICE CONTROL MECHANISMS

This paper discusses a variety of regulatory mechanisms for price control and explores their impact under different economic conditions. Some of these options were utilized during the life of the Program; some were merely discussed. This paper should serve as a brief overview of the various options available to future controllers. Also, it serves as a guide for reading between the lines of the regulations of the Economic Stabilization Program in order to understand some of their less obvious intentions and shortcomings.

WAGE STABILIZATION POLICIES

Throughout the Economic Stabilization Program, wage controls were administered separately from price controls. The first paper in this group describes the concepts governing wage stabilization during the life of the Program, specifically discussing the operations of the Phase II wage stabilization effort. The following paper, dealing with Phase III and IV wage stabilization, presents a view of the contrasting philosophy and style of wage stabilization policies that followed Phase II.

ECONOMIC CONTROLS ON STATE AND LOCAL GOVERNMENT

Although initially subject to some controversy, state and local government activities were construed to be under the jurisdiction of formal wage and price controls. As the Program went on, the focus of its activities in the state and local government area was concentrated on wage determination. This monograph describes the philosophy and operations of the Program's treatment of public sector wage stabilization--an area with peculiarities, forces and counterforces all its own.

CASE PROCESSING

This series of papers discusses various aspects of the case processing during the Economic Stabilization Program. Different types of information requirements existed for pay and price matters and thus different systems for processing relevant information evolved. The handling of price cases was similar throughout the Program; it is therefore discussed in one paper. The handling of pay cases changed somewhat after Phase II; thus, the two time periods are treated separately. Finally, there is a summary discussion on the use of computers in the Economic Stabilization Program. The paper elsewhere in this volume on Price Data and Data Systems deals with automated data processing on the price side of the Program.

PRICE EXCEPTIONS

This paper discusses the price exception policy and process as it evolved during the Program. (Wage exceptions are treated in the papers on Wage Stabilization Policies and Case Processing.) Formal decision announcements (Decision and Orders), which are included in an appendix, indicate both the need for exceptions relief in a broad controls program and the complexity of the issues raised in connection with exceptions policy.

COMPLIANCE AND ENFORCEMENT

The enforcement of price and wage regulations in Phases I through IV was predicated on the concept of "voluntary compliance," i.e., that most firms would comply with price or wage limits without the threat of enforcement. In keeping with this, violators were penalized primarily to establish the credibility of controls. This paper explores the philosophy of compliance, the succession of programs used to enforce the regulations, and evaluates the effectiveness of compliance management. The paper concentrates on price compliance, illustrating general themes and conclusions.

PRICE DATA AND DATA SYSTEMS

This paper discusses, generally, the data needs of a wage and price control agency and then describes the experience of the price side of this program with data processing and systems. Discussion of the data systems used in wage stabilization activities are found in the Case Processing section.

The reader is referred to the Data Appendix where much of the data collected by the Economic Stabilization Program is published in aggregated form for the use of researchers.

REMOVING CONTROLS: THE POLICY OF SELECTIVE DECONTROL

While the Economic Stabilization Program was viewed by policy makers as a temporary, emergency measure, until late 1974 less discussion wnt on about decontrol than about the administration of existing controls. This paper describes the sector-by-sector exemption policy that operated during Phase IV of the Program. The operational aspects of the policy are dealt with as appendices to this chapter and in the Tenth Quarterly Report of the Economic Stabilization Program.

THE IMPACT OF THE ECONOMIC STABILIZATION PROGRAM
ON BUSINESS FIXED INVESTMENT

This paper is one of the few in this collection that analyzes events during the life of the Economic Stabilization Program from a purely economic point of view. First, the paper reviews some of the models of investment behavior common to current economic thinking and then reviews the policy actions that took place during the controls period that might have, according to the various models of investment behavior, affected the rate of capital investment. In its final sections, the paper empirically examines, through the use of regression techniques, the impact of the Economic Stabilization Program on capital investment.

ADVISORY COMMITTEES

This paper describes the activities and use of advisory committees in the Economic Stabilization Program. After a brief introduction outlining the general functions of such groups, the paper discusses compliance with the Federal Advisory Committee Act and explores some of the strengths and weaknesses of the specifications of this statute. In an appendix, the paper describes the workings and activities of the various advisory committees that participated in the policy development and operations of the Program.

LITIGATION UNDER THE ECONOMIC STABILIZATION PROGRAM

Litigation was an important aspect of the Economic Stabilization Program. The Federal courts were the means through which Stabilization agencies (working through the Department of Justice) enforced compliance of the Economic Stabilization Act, and in which the agencies' administrative actions could be challenged. This paper addresses both the offensive and defensive aspects of litigation related to the program, but emphasizes the latter. Discussion of individual cases is organized by the type of legal issue presented in each case.

COMMUNICATING WITH THE PUBLIC

The focus of this paper is broader than public affairs and includes the dissemination of regulations and policies from Stabilization agencies to the regulated public. Its subject headings follow temporal divisions in the Program. Included as appendices are shorter essays on the IRS's involvement in public communications; descriptions of specific offices in the Stabilization agencies; and an essay tracing public opinion of controls during the life of the Program.

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HISTORY OF PETROLEUM PRICE CONTROLS

During Phase IV a series of complex and product specific regulations were issued to try and hold back price increases in the petroleum area. Coincidentally, this elaborate set of petroleum price controls was in place when the OPEC oil embargo was imposed on the United States and other Western nations. This paper discusses the economics of the petroleum situation and the difficulties of constructing and enforcing the regulatory scheme.

This paper was prepared under contract by Charles R. Owens and Associates, Inc. Mr. Owens was formerly a Special Consultant for Energy to the Director of the Cost of Living Council.

RENT CONTROLS DURING THE ECONOMIC STABILIZATION PROGRAM

This paper discusses the role of rent controls in the Economic Stabilization Program. It tracks the development of that policy in the context of the economic and political climate which influenced policy towards rent. It includes a discussion of how the regulations were formulated, the problems of their effective administration and the reasons rent controls were not included as part of Phases III and IV.

NOTES ON ORGANIZATION AND MANAGEMENT ISSUES

One of the most interesting aspects of the Economic Stabilization Program was the necessity to build from scratch an organization to administer the Program to manage it effectively during a period of major policy change when the workload was greater than available resources, and then to terminate it in an orderly and humane fashion.

Unfortunately, as a part of the historical analysis project, it was not possible to develop a comprehensive study of organization and management issues. However, certain issues related to these subjects are presented throughout the working papers in this compendium; this paper will offer some observations that might be useful to those interested in the administration of a wage and price controls program.

This is divided into two sections. Section One offers some subjective thoughts by one of the senior line-managers who served throughout the Program.

Section Two recaps the intensive efforts mounted during the Spring of 1974 to place Stabilization Program personnel in other jobs, once the Program was terminated.

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WHO'S WHO

This paper contains brief biographies of the senior officials of the Economic Stabilization Program and organization charts showing the relationship of various Program agencies and offices.

DATA APPENDIX

This separate volume contains a variety of wage and price data collected by the several Stabilization Program agencies. These data have been carefully screened in in order to provide the best quality data possible as well as to protect proprietary data. Generally the data is presented in aggregated form so as to protect this confidentiality.

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

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December 31, 1974

MEMORANDUM TO CORRESPONDENTS:

The attached record of actions by the Office of Economic Stabilization is released for your information.

Attachment

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From November 9, 1974 through December 27, 1974, the Office of Economic Stabilization (OES), Department of Treasury, has taken the following actions:

Compliance Actions

Request for Reconsideration of Remedial Order - Denial

R. R. Donnelley & Sons Company - Chicago, Ill. — OES has denied the request for reconsideration of its remedial order issued on November 27, 1974 to R.R. Donnelley & Sons Company and the members of its Executive Control Groups ("ECG"). The order states that the company through payment, and the members of the ECG through receipt, of $160,168 of incentive compensation for the company's fiscal year ended December 31, 1973, in excess of the amount allowed to be paid under the provisions of the Phase IV executive compensation regulations violated the said regulations. The order requires the repayment to the company by the members of the ECG of the excess compensation.

Voluntary Compliance - Acceptance

Perdue, Inc. Salisbury, Md. - The Office of Economic Stabilization has accepted an offer of $255,773 from Perdue, Inc. to bring it into compliance with the

Phase IV sales revenue regulations for food processors.

Compromise Settlements

Akzona, Inc.	On December 6, 1974, the Office of Economic Stabilization and Akzona, Inc. compromised disputed wage and salary claims for $2400 payable to the United States.
Kimberly-Clark Corporation	On December 17, 1974, Kimberly-Clark Corporation, the O.E.S., and Kimberly-Clark Corporation's Executive Control Group ("ECG"), entered into a compromise settlement concerning disputed incentive compensation payments to the company's ECG during Phase IV. The terms of the settlement include repayment to the Company by the members of the ECG of $54,000, and payment by the Company to the United States of $20,000 in compromise of civil claims.
Oman Construction Company, Inc.	The Office of Economic Stabilization has accepted an offer of $25,000.00 from Oman Construction Company, Inc. in full settlement of civil claims based upon an alleged violation of the profit margin regulations for its 1974 fiscal year.

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Pemcor, Inc.	The Office of Economic Stabilization has accepted an offer of $25,000 from Pemcor, Inc. in full settlement of civil claims based upon an alleged profit margin violation for its 1974 fiscal year.
Stauffer Chemical Company	On December 3, 1974, OES accepted a check from Stauffer Chemical Company (Stauffer), in settlement of any civil claims the government may have had against Stauffer by virtue of Stauffer's payment after May 1, 1974, of incentive compensation to members of its Executive Control Group.
Wilsey, Bennett Co.	On December 20, 1974, OES accepted an offer of $200,000 from Wilsey, Bennett Co. in settlement of any civil claims the government may have against Wilsey, Bennett Co. with respect to alleged violations of the gross margin regulations 6 CFR 150.606(c)(1) for the fiscal quarters ended September 30, and December 31, 1973 and March 31, 1974.

Health

Requests for Exception

OES acted on 40 Requests for Exception. Of that number, 3 were approved in full, 19 were approved in part, 11 were denied, and 7 were either withdrawn or dismissed.

Requests for Reconsideration

OES acted on 33 Requests for Reconsideration. Of that number, 5 were approved in full, 3 were partially approved, 3 were denied, and 22 were dismissed.

Compliance Activities

OES acted on 165 health compliance cases. 103 outstanding Notices of Probable Violation were closed, 27 Remedial Orders were revoked (closed), 29 Voluntary Compliance Plans were approved, and 6 outstanding Remedial Orders were referred to the Office of Chief Counsel.

Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE December 31, 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 $5,000,000,000 , or thereabouts, to be issued January 9, 1975, 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 October 10, 1974, and to mature April 10, 1975 (CUSIP No. 912793 WD4), originally issued in the amount of $2,002,820,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,300,000,000, or thereabouts, to be dated January 9, 1975, and to mature July 10, 1975 (CUSIP No. 912793 XD3).

The bills will be issued for cash and in exchange for Treasury bills maturing January 9, 1975, outstanding in the amount of $4,806,235,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,432,975,000. 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, Monday, January 6, 1975. 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 January 9, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 9, 1975. 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 January 2, 1975

RESULTS OF AUCTION OF 15-MONTH TREASURY NOTES

The Treasury has accepted $0.75 billion of the $1.9 billion of tenders received from the public for the 15-month 8% notes auctioned today. The range of accepted competitive bids was as follows:

	Price	Approximate Yield
High	100.91 1/	7.18%
Low	100.80	7.27%
Average	100.84	7.24%

The $0.75 billion of accepted tenders includes 19% of the amount of notes bid for at the low price, and $0.2 billion of noncompetitive tenders accepted at the average price.

No tenders were received from Government accounts or from Federal Reserve Banks for themselves or as agents of foreign and international monetary authorities.

1/ Excepting 4 tenders totaling $566,000

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January 2, 1975

FOR IMMEDIATE RELEASE

Treasury Secretary William E. Simon today issued the following statement:

In regard to the return to American citizens of the right to own gold, I would like to commend the nation's media for the outstanding job they have done over the past several weeks in disseminating basic information and promoting understanding of what this change means in both over-all and personal terms. I can recall few stories that have been better covered by our newspapers, magazines and radio-television reporters. They have done the public a distinct service in a complex subject area and deserve the nation's commendations.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE January 2, 1975

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 January 14, 1975, and to mature January 13, 1976 (CUSIP No. 912793 YEO).

The bills will be issued for cash and in exchange for Treasury bills maturing January 14, 1975, outstanding in the amount of $1,802,365,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $1,087,535,000. 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, January 8, 1975. 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 January 14, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 14, 1975. 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 W04-2041

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FOR IMMEDIATE RELEASE January 2, 1975

DETERMINATION OF SALES AT NOT LESS THAN FAIR VALUE ON RAPID TRANSIT VEHICLE SEATS FROM BRAZIL

Assistant Secretary of the Treasury David R. Macdonald announced today a determination that rapid transit vehicle seats from Brazil are not being, nor are likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Notice of this decision will appear in the Federal Register of January 3, 1975.

A Notice of Tentative Negative Determination was published in the Federal Register of October 3, 1974.

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

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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
Friday, 3 January 1975
Contact: ORS Public Affairs
202-634-5248

The Treasury Department's Office of Revenue Sharing paid more than $1.5 billion to 36,771 state and local governments throughout the country today, as the tenth regular payment of general revenue sharing funds went into the mail.

Today's payment brings the total of general revenue sharing funds distributed to-date to $17.3 billion. The State and Local Fiscal Assistance Act of 1972 authorizes $30.2 billion of federal funds to be shared during the period January, 1972 to December, 1976. The payment today is the second quarterly allotment of the fifth entitlement period.

Of some $22.4 million in funds deferred by the Office of Revenue Sharing from today's payment, $19.2 million belongs to the City of Chicago. Payment of the Chicago check during this allotment quarter was deferred following a Court order in Washington rising out of a discrimination ruling

(MORE)

against the City. The Courts have found Chicago to be discriminating in its Police Department personnel procedures used for hiring and promotions. *

The remaining $1.3 million was not paid to an estimated 1,170 local governments, primarily because required planned or actual use reports have not been filed. This figure represents two-tenths of one-percent of the total paid today.

Funds deferred pending the filing of actual or planned use reports will be paid upon receipt of the one-page forms. The units of government involved with no-report holds on checks during this quarter is less than half the number of last quarter's hold for similar reasons.

General Revenue Sharing funds are distributed quarterly to state and local governments according to a fixed formula based on population, tax effort, and relative income. Data applied to the formula are provided by the U. S. Bureau of Census. The law provides that, after the formula is applied, one-third of each State's allocation is paid to the State itself, and the remaining two-thirds is paid to units of local government within the State. Units of local government include counties, cities, towns, townships, Indian Tribes, and Alaskan native villages.

(MORE)

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t-3 Revenue Sharing

Payment totals, by State (number in parenthesis indicates local jurisdictions within each State), distributed today are: Alabama (442) $26.1 million; Alaska (137) $2.2 million; Arizona (97) $15.8 million; Arkansas (509) $16.1 million; California (494) $162 million; Colorado (295) $16.4 million Connecticut (182) $19.9 million; Delaware (56) $4.6 million; District of Columbia (1) $6.6 million; Florida (448) $48 million; Georgia (645) $33 million; Hawaii (5) $6.6 million; Idaho (233) $5.9 million; Illinois (2,713) $58.9 million; Indiana (1,567) $32.3 million.

Iowa (1,014) $21.5 million; Kansas (1,648) $14.1 million; Kentucky (484) $24.5 million; Louisiana (351) $35 million; Maine (495) $9.5 million; Maryland (165) $30 million; Massachusetts (355) $48.7 millicn; Michigan (1,797) $65.6 million; Minnesota (2,648) $30.8 million; Mississippi (353) $24.4 million; Missouri (1,241) $29.4 million; Montana (184) $6.4 million; Nebraska (1,001) $10.3 million; Nevada (44) $3.3 million.

New Hampshire (228) $5.1 million; New Jersey (580) $48.3 million; New Mexico (143) $9.9 million; New York (1,594) $172.7 million; North Carolina (546) $39.2 million; North Dakota (1,684) $5.3 million; Ohio (2,305) $61.7 million; Oklahoma (594) $17.6 million; Oregon (265) $15.5 million; Pennsylvania (2,592) $81.9 million; Rhode Island (40) $6.8 million;

(MORE)

South Carolina (296) $21.3 million; South Dakota (1,244) $6.4 million;

Tennessee (396) $30 million; Texas (1,207) $73.5 million;

Utah (243) $9.1 million; Vermont (300) $4.3 million;

Virginia (316) $30.5 million; Washington (321) $21.6 million;

West Virginia (272) $15.3 million; Wisconsin (1,892) $38.9 million;

and Wyoming (109) $2.6 million.

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* Note: As of the date of this release, litigation surrounding the Chicago case is pending and several actions are under litigation in the Federal Courts. If you have any questions regarding the status of these actions as of your publication deadline, please feel free to contact us.

ORS Public Affairs

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

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FOR RELEASE ON DELIVERY

ADDRESS OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE AMERICAN FARM BUREAU FEDERATION
AT THE RIVERGATE CONVENTION CENTER, NEW ORLEANS, LOUISIANA
MONDAY, JANUARY 6, 1975, AT 10:45 A.M. (C.S.T.)

President Kuhfuss, distinguished members of the American Farm Bureau Federation, and guests:

For every member of the Administration, it is a privilege and personal pleasure to appear before a gathering of the Farm Bureau. As the largest voluntary farm organization in the Nation, you have come to represent a constructive and positive force on the side of progress for all Americans. We welcome your dedication to the free enterprise system and to many other values that have helped to build this country, and we share your pride in the awesome gains that American farmers have made in providing food and clothing for people here and across the world.

I know that many of you today are deeply worried about the state of our economy. Many Americans, including some farmers, have suffered a decline in their standard of living. Unemployment is far greater than we would like and is still climbing. And even with the country in a recession, the inflation rate remains at record peacetime levels. Times are tough, and most Americans expect them to grow tougher still.

Yet we would be utterly foolish now to panic or to be mesmerized by those who continually foresee catastrophe around every corner.

During the Second World War, young officers used to marvel at the way that General George Marshall maintained his composure and dignity despite frequent predictions of disaster. How do you do it, they asked. "Because I have seen worse," he replied.

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Well, America has seen worse too. We have faced many difficult challenges in the past, and we have always rallied to overcome them. We will do that again today if we can keep our cool and act together as a united, free people, always maintaining faith in ourselves. This is no time for quitters or sunshine patriots, but for men and women of courage and conviction who believe in America and what America means to the world. The members of the Farm Bureau have never wavered in that faith, and I know you can be counted on today to continue your support for the free market and resist pressures for a return to farm policies of the past.

Restoring the Free Market on the Farms: A Lesson for the Nation

In coming to grips with our economic problems, I would hope that all Americans would draw a lesson from your experiences on the farms in recent years. As all of you know full well, the Federal Government began a massive intervention in the farm markets during the 1930s when farm incomes were disastrously low and agriculture was burdened by excess productive capacity. Farming became one of the most regulated sectors in our economy. While assessments differ, I think most of us would agree that in trading freedom for economic security, farmers not only gave up precious rights but also planted the seeds for a rather bitter harvest. By the 1960s, the fruits of Government regulation were plain for all to see:

-- Per-capita farm income during the 1960s, after taxes, averaged about one-third lower than what nonfarm people were making.

-- Farm exports were averaging less than $6 billion a year.

-- Family farms were declining at a rate of over 100,000 a year.

-- One acre in every six was held out of production.

-- And the consumer, although enjoying low food prices, was paying out $3 billion a year in farm subsidies and another $1 billion for a stockpile program of farm products.

In the last five years, we have begun to turn this situation around by loosening the Government straight jacket, devaluing the dollar, opening up export markets and encouraging the return of the free marketplace in agriculture. President Eisenhower once observed, "Farming looks mighty easy when your plow is a pencil, and you're a thousand miles from the corn field." We know that, and we are trying to let farmers take their signals from the marketplace, not from the bureaucrats in Washington.

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I think history will one day record the reversal of farm philosophy which has occurred in the United States as one of the most significant accomplishments of the 1970s. Consider the results:

-- Farm income today is approximately double that of the 1960s.

-- Farm exports today are almost four times what they were in the 1960s, and come close to equalling the total American payments for foreign oil. I wish more Americans were mindful and appreciative of this fact.

-- The number of farm families appears to have stabilized.

-- Almost 60 million acres have been released from set aside programs, and more than half of these acres have been converted to active production.

-- And payments for farm subsidies -- the hidden cost of food in years gone by -- have been reduced to less than a billion dollars a year.

I recognize that there are still problems in agriculture. Cattle ranchers, poultry and hog producers, dairy farmers, and the producers of a variety of other commodities are all caught in a painful cost-price squeeze. I know that you are also sensitive to the problems of consumers who have seen food prices rise by some 33 percent between mid-1972 and mid-1974. All of us -- farmers, middle men, and Government officials -- are consumers, and all of us want to hold down the rate of inflation. In the long run, the best way to do that is to maintain a high level of productivity and produce enough supplies that will ensure the consumer sufficient quantities of food and fiber at reasonable prices and will bring the farmer a fair return on his investment. That is the direction in which our farm policies are carrying us today.

On balance, I would submit that the deregulation of the American farmer is good for the farmer, good for the consumer, and good for millions upon millions of hungry people around the world.

Free Enterprise: An Endangered Species

I recount these experiences to a farm audience not simply to demonstrate my respect for you -- and I shall always have the highest regard for what you have done for this country -- but because there is a lesson here about free enterprise that all Americans must come to understand and appreciate. The progress that we have made in agriculture because you are no longer under the thumb of the Government can also be made in energy and transportation and many other fields where Government regulation now impedes growth and development. The Government has become so huge and domineering and we have turned to it so often for the solution of our problems that we have forgotten how much can be accomplished by private enterprise and by men and women who are free to determine their own destinies. The private enterprise system helped to give this nation the highest standard of living that man has ever known, and if we can only unleash those powerful engines once again, as we have in agriculture, then we can put this country back on the road to prosperity.

It is fashionable to picture the opponents of centralized planning as empty-headed reactionaries whose thinking has never proceeded beyond the 19th century, but the threat of Big Government is a phenomenon that has become altogether too stark and ominous during the 20th century. Today in America, one in every six members of the labor force now works for the Government -- local, State, or Federal. It took 186 years for the Federal budget to reach $100 billion, a line it crossed in 1962, but then only nine more years to reach $200 billion, and only four more years to reach $300 billion. Total Government expenditures, which accounted for 12 percent of our Gross National Product before the New Deal, now represent one-third of the GNP and if present trends continue, could easily exceed 50-60 percent of the Gross National Product by the turn of the century. Government now directly controls several of our major industries -- air, rail and truck transportation, power generation, television, radio, the securities industries, to name the most obvious -- and exerts enormous influence on others through tax laws, environmental controls, and the like.

One need not be an ideologue to fear the continued growth of Big Government or to see the destructive effects that such overwhelming power has already had upon our economy and upon our freedoms.

Is it not plain, for instance, that loose fiscal and monetary policies over the past decade are at the root of many of our current economic problems? Deficits piled upon deficits since the early 1960s have greatly increased the demand for goods and services, driving up their prices. The Government has also been forced to borrow heavily in private capital markets -- so heavily that in fiscal year 1974, 60 percent of the net funds raised in the securities markets went to Government agencies or Government-sponsored agencies at the local, State and Federal level. Whenever the Treasury enters the private capital markets, it always goes to the head of the line, leaving the business borrower, the mortgage borrower, and the personal borrower at the end of the line -- all facing higher interest rates or no funds at all. At the same time, partly in order to accomodate Federal spending deficits and partly to satisfy public demand for instant prosperity, the Federal Reserve over the past decade has followed an overly-expansive policy. These fiscal and monetary policies form the basic underlying causes of the inflation that has been gathering momentum in this country for more than a decade. There have been other significant causes, of course -- the oil cartel and the increase in food and fertilizer prices being the most significant among them -- but after these special factors subside in force, as they will, we must still face up to the fact that until we reform our fiscal and monetary policies, inflation will continue at an intolerable rate. We can no longer afford to live beyond our means -- living off our reserves at the same time that we draw upon the seedcorn of the future.

It is equally plain to me that we will never have plentiful supplies of domestic energy available until we overhaul the Government's approach to energy production and prices. For more than two decades, despite warnings from experts, the Government has controlled the price of natural gas at an abnormally low level in order to provide cheap energy to consumers. The results were totally predictable. The production of natural gas failed to develop as rapidly as it might have, and today we have shortages that have been induced by the Government. In effect, the Government has also been trying to manage the oil industry through various pricing and production policies, and today, when we clearly need more domestic oil, domestic production is declining. In fact, in the case of both oil and natural gas, we are now in the unbelievable position of paying foreign producers more for their product than we are willing to pay our own American producers.

The shortcomings and evils of Big Government have become one of my favorite topics, and I could continue for the rest of the day with examples -- Government tax laws that discourage savings at a time when capital investments are vital for our future, Government practices that have encouraged a decline in profits, and regulatory practices that are estimated to cost the consumer billions upon billions of dollars. The list is almost as voluminous as the catalogue that the Federal Government now publishes in order to keep up with its own programs -- a catalogue as thick as the Manhattan phone directory.

Controls Are No Answer

Yet in the face of abundant evidence that Big Government has caused many of our current economic problems, we hear with increasing frequency that we should make the Government even bigger in order to solve those problems. Open up the sluice gates of Federal spending and lending, it is urged, and then impose wage and price controls across the board in order to hold down the inflation that is sure to explode. Can they be serious?

As I know from the positions that you have taken in your public statements, farmers have already gotten the message about controls, and I appeal to you today to help carry that message across the land. Controls don't work: they disrupt the free market system, causing distortions and inequities and eventually they lead to higher unemployment and inflation, this is one of the oldest lessons in man's history. In the year 301 A.D., the Roman Emperor Diocletian imposed the first wage-and-price controls under an edict that set schedules for 72 different wage categories and 890 price categories -- some 222 for food, so I'm told. The penalty for an offense was death. What happened? Well, thirteen years later the program was abandoned because it was in a shambles. Again and again that has proved to be the case, especially in the twentieth century. Controls have failed in the past and they will fail now, if we are shortsighted enough to try them again.

The Ford Economic Program

What, then, are the answers to our current economic problems? As you know, President Ford and many members of his Administration have devoted an enormous amount of time to this question. Many difficult policy decisions have been put before the President, and he is acting upon them with the greatest care and with acute concern for the needs of the average American. In approximately two weeks time, the President will present to the Congress and to the American people an economic policy statement that I believe you will find to be tough, comprehensive and effective. I hope this will merit your support and that you will be active in seeking its implementation.

It would be premature for me today to discuss the details of these proposals, but I would like to outline some of the standards that have guided our deliberations:

First, we must attack the forces of inflation and recession at the same time. We cannot afford the luxury of concentrating upon one at the expense of the other, for both are social dynamite.

The President is fully aware of all of the dangers facing the economy. He knows how much suffering results from unemployment, and of course, he wants to minimize the extent of the current recession. Yet neither he nor anyone else within the Administration wants to set off another round of roaring inflation. We are beginning to make some progress against inflation, and we want to continue that progress. Thus, while we must be bold, we must also be prudent.

Let us also be clear that there is a close relationship between inflation and recession. The high interest rates that always accompany inflation caused severe instability in financial markets, dried up money that was available for mortgages, and sent the housing market into the worst slump on record. Similarly, inflation has been a major factor -- perhaps the major factor -- that has demolished consumer confidence, which is having a crushing impact on sales of cars and other consumer goods. Since housing and consumer spending remain two of the weakest areas in the economy, it is clear that inflation and recession are inextricably intertwined. They are both parts of the same disease, and they must be fought together.

Second, the President remains committed to the goal of cutting back our consumption of energy and accelerating domestic production. Both steps are essential in order to meet the challenge of the oil cartel and to secure greater self-sufficiency in the future. We have made much more progress through voluntary conservation efforts than is generally recognized, but it is also apparent that we must now go beyond those efforts. That will necessarily mean a degree of personal sacrifice by all of us, but the President is fully confident that the American people understand this need and are prepared to meet it.

Third, the President believes that we must also be guided by compassion and understanding for those who have been hit the hardest by our economic troubles -- those who have lost their jobs, low income Americans, and others. They deserve special attention, and they will continue to receive it.

Fourth, and of great importance, the President is strongly committed to the proposition that the best hope for solving our problems lies with you, the American people, and with the free enterprise system that has always been the foundation of our strength. The Government must provide leadership, but in a way that minimizes the burdens upon the marketplace and upon the men and women who pay taxes.

There are no quick fixes or easy answers to our problems, but surely the lessons of history make it clear that the solutions lie in the direction of less Government and more freedom. After two years in Washington, I am convinced that we already have more government than we need, more government than most people want, and certainly more government than we are willing to pay for.

In closing, I submit to you that if we are tempted once again by the siren songs of controls and other forms of centralization, we will not only inflict enormous damage upon our economy but we will also place the free enterprise system in the greatest danger it has faced in our lifetimes. The free enterprise system is already under siege: it is distrusted by far too many people and wherever it is displaced, the Government quickly fills the vacuum. This generation -- our generation -- may be one of the last which has the opportunity to stop the swing of the pendulum before it is too late. As men and women who have experienced the fresh winds of free enterprise, I urge you to stand steadfast for that cause.

Thank you.

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

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FOR IMMEDIATE RELEASE JANUARY 6,1975

STATEMENT BY WILLIAM E. SIMON
THE SECRETARY OF THE TREASURY

In the U. S. Treasury gold auction today demand was less than had generally been anticipated. Bids were submitted for 954,800 of the 2 million ounces offered for sale. In deciding what volume of the offers to accept, the Treasury was faced with the necessity of balancing, on the one hand, the desirability of not selling at prices far below market indications with, on the other hand, the desirability of following procedures which will not place the U. S. Government unnecessarily in the role of setting prices.

After balancing these considerations, the Treasury requested the General Services Administration to accept 750,000 ounces, that is, slightly over three-quarters of the bids received. On this basis, unaudited figures indicate that all bids of $153 per ounce or higher will be accepted. It has not yet been possible to calculate the average price which will be paid on the accepted bids. Bids were received from a high of $185 per ounce to a low of $1 per ounce.

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13-wk		26-wk
7.113	Last auction	7.101
6.698	To-day	6.682
6.698	Low since 10/7/74	
	5/14/73	6.456

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

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FOR RELEASE 6:30 P.M. January 6, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.7 billion of 13-week Treasury bills and for $2.3 billion of 26-week Treasury bills, both series to be issued on January 9, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 10, 1975		26-week bills maturing July 10, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.331	6.603%	96.648 a/	6.630%
Low	98.298	6.733%	96.612	6.702%
Average	98.307	6.698% 1/	96.622	6.682% 1/

a/ Excepting 1 tender of $540,000

Tenders at the low price for the 13-week bills were allotted 81%.
Tenders at the low price for the 26-week bills were allotted 65%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 39,350,000	$ 29,255,000	$ 25,355,000	$ 14,555,000
New York	3,560,545,000	2,146,395,000	3,486,890,000	1,964,570,000
Philadelphia	36,345,000	35,990,000	35,205,000	14,775,000
Cleveland	77,235,000	58,875,000	74,455,000	33,795,000
Richmond	46,325,000	37,880,000	60,355,000	32,355,000
Atlanta	50,475,000	49,345,000	45,040,000	29,055,000
Chicago	219,935,000	112,365,000	252,760,000	36,710,000
St. Louis	60,330,000	33,630,000	86,740,000	32,890,000
Minneapolis	12,620,000	10,620,000	10,455,000	4,195,000
Kansas City	46,000,000	43,625,000	39,230,000	30,130,000
Dallas	39,760,000	29,310,000	29,435,000	19,125,000
San Francisco	249,935,000	113,490,000	266,140,000	88,080,000
TOTALS	$4,438,855,000	$2,700,780,000 b/	$4,412,060,000	$2,300,235,000 c/

b/Includes $515,905,000 noncompetitive tenders accepted at average price.
c/Includes $310,325,000 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 7.01% for the 26-week bills.

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

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FOR IMMEDIATE RELEASE January 7, 1975

WITHHOLDING OF APPRAISEMENT ON
LOCK-IN AMPLIFIERS AND PARTS THEREOF
FROM THE UNITED KINGDOM

Assistant Secretary of the Treasury, David R. Macdonald, has announced a withholding of appraisement on lock-in amplifiers and parts thereof from the United Kingdom pending a determination as to whether they are being sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

This decision appeared in the Federal Register of January 6, 1975.

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

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

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

During the period of January, 1973 through August, 1974, imports of lock-in amplifiers from the United Kingdom were valued at approximately $35,000.

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

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FOR IMMEDIATE RELEASE January 7, 1975

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 January 16, 1975, as follows:

91-day bills (to maturity date) in the amount of $2,600,000,000, or thereabouts, representing an additional amount of bills dated October 17, 1974, and to mature April 17, 1975 (CUSIP No. 912793 WE2), originally issued in the amount of $ 2,003,495,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,200,000,000, or thereabouts, to be dated January 16, 1975, and to mature July 17, 1975 (CUSIP No. 912793 XE1).

The bills will be issued for cash and in exchange for Treasury bills maturing January 16, 1975, outstanding in the amount of $4,604,645,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,583,060,000 . 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, Monday, January 13, 1975. 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 January 16, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 16, 1975. 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 January 8, 1975

Secretary Simon has named Edward P. Snyder, Director of the Office of Debt Analysis, to act as Special Assistant to the Secretary (Debt Management) until an appointment has been made to fill the vacancy created by the resignation of Edward M. Roob.

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January 8, 1975

Focus on America's Foremost Problem

INFLATION, RECESSION, CONTROLS AND DEFICITS:
Comments on Economic Issues by The Honorable William E. Simon
Secretary of the Treasury
Chairman, Economic Policy Board

Q-1: Why are you so concerned about inflation? Aren't the ravages of recession our No. 1 problem?

MR. SIMON: The problems of inflation and recession are inseparable parts of the same economic evil, and the Administration's programs are aimed at coping with both at one and the same time. Thus, while we are acting to cushion the impact of adjustment on the unemployed and hard-hit areas of the economy, we are striving to bring down the towering rate of inflation. Why? Because 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.

We must also recognize the extent to which inflation has caused the general economic slowdown. It was inflation that dried up the supply of mortgage money and sent the housing industry into a tailspin. And it was inflation that 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 rank as a chief target of our economic policies.

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.

Q-2: 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 excessive stimulation of the economy 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 excessive stimulation of the economy now would simply whip prices higher and lead to an even tougher day of reckoning later.

Q-3: 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

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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 ease hardship--on the unemployed, for example--where our economic difficulties hit with disproportionate force.

Q-4: 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-5: What's caused inflation? Isn't it mostly high oil prices?

A: No, not most of it, though the energy crisis 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 poor crops 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-6: 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-7: Why is it so hard to check the growth of the Federal budget? Why can't the Pentagon budget be cut?

A: It has proved difficult to hold the line on government budget increases because such a large proportion

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of spending is mandated by previous contractual and legislated commitments, which often can't be changed quickly. Budget cutting is also 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.

Because we are now over half-way through the current fiscal year, hopes for budget restraint must now turn to the next fiscal year beginning July 1. There are some areas of the budget that can be held down and no part will be considered sacrosanct, including the military. We must keep in mind, however, that since 1968, defense spending has risen only slightly. And as measured in real buying power, it has been reduced by about one-third.

One hopeful development in regard to bringing Federal spending under control 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 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-8: <u>What about the so-called "uncontrollables" in the Federal budget? In which of these areas is spending increasing the most rapidly?</u>

A: In the past six years, the so-called uncontrollable outlays rose about $90 billion and are nearly three-fourths of the total budget. Nearly $70 billion of the $90 billion increase was in social security and other retirement programs, veterans benefits, and a wide range of health and welfare programs. Interest on the national debt and other fixed commitments accounted for the remainder.

Achieving control over government spending is complicated by the way many Federal programs start on a small scale but then mushroom rapidly. Some examples:

* Food stamps came to $200 million in 1969 but reached nearly $4 billion in 1974--a 20-fold increase in just five years.

* Public assistance programs and social services totalled a little over $3 billion a decade ago but are nearing $20 billion now.

* Total Federal health outlays were $1.7 billion a decade ago but are now over $25 billion.

Incidentially, I consider the word "uncontrollable" a misnomer. Just because Congress has legislated a program doesn't mean it can't be changed.

<u>Q-9: What about so-called off-budget items? With these omissions, how can people get a true picture of total spending by government?</u>

A: I believe it is essential that we give the American people a true picture of <u>all</u> 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 about $28 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.

<u>Q-10: Will we ever again see 6 percent interest rates on loans?</u>

A: It's possible--but not until we achieve a much lower rate of inflation. Today's high interest rates are caused by today's high rate of inflation and the tremendous demands that built up for loans. As we reduce this demand along with the rate of inflation, interest rates will come down.

But we can't reverse that sequence; that is, we cannot cut the inflation rate by driving interest rates down through the

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process of creating much more money and credit. That would only throw fresh fuel on the inflationary fire. Inflation would speed up and interest rates would be driven still higher.

Each time we lose a bout with inflation, interest rates are ratchetted higher. In 1966 rates on long-term corporate bonds peaked at a little over 6 percent, in 1970 they reached almost 10 percent, and last year the high was 12 percent.

Q-11: What's wrong with government spending new billions, as many are suggesting, to halt the rise in unemployment?

A: Unfortunately, there's no such thing as "free" Federal programs--any more than there's such a thing as a free lunch. And it's high time public officials leveled with the American people and told them so. If we don't have the courage to raise taxes to pay for new spending programs, then people are forced to pay through the cruelest and most regressive tax of all--inflation.

If we are going to have programs to cushion economic adjustment, taxpayers should pay for them--and this was the reason the President proposed a surtax last fall. I sincerely believe that the higher-income people among America's 85 million jobholders can and should contribute more to help the 6-1/2 million unemployed. If not, if Washington resorts to excessive economic pump-priming, we will face even worse inflation later--which, in turn, will lead to still another economic slump and perhaps worse unemployment down the road.

Q-12: What are your plans to deal with unemployment as it worsens?

A: A solid unemployment compensation system is now in place and we recently joined with Congress in having its benefits extended and expanded. In addition, this legislation funded a subtantial number of public service jobs to provide temporary employment for out-of-work men and women who have exhausted their unemployment benefits.

Other action we have recommended would create more private sector jobs. We have extended billions in loan funds to aid the housing industry and we have recommended expansion of the investment tax credit to help business modernize and expand plant and thereby both create more jobs and overcome inflation-spurring shortages. Basically, however, the ultimate way to tackle unemployment lies in reduction of inflation, restoration of consumer confidence and a return to sound economic growth.

Q-13: Isn't there a contradiction in your advocacy of pay-as-you-spend policies and balanced budgets, on the one hand, and Administration studies of possible tax cuts and other measures to stimulate the economy, on the other?

A: No, I don't think so. First of all, nothing is more important than responsible budgets; if government had followed pay-as-you-go policies over the past decade, we wouldn't be in our present mess. But I do not advocate a balanced budget when the economy is falling off into recession. Budget deficits in recession are inevitable and even desirable, since they provide a needed degree of fiscal stimulus. But we also have rampant inflation to contend with. And there is a world of difference in terms of inflation between a deficit which results from sluggish tax revenues, and one which results from runaway federal spending. The first type of deficit helps to stabilize the economy; the second type would further destabilize it.

Yes, we are examining the case for tax cuts as one of several approaches to improving economic conditions. I have never believed that economic policy should be rigid or inflexible. But we should be wary of heavy federal spending just because the economy is going through a temporary adjustment. The consensus private economic forecast is for a recovery in the second half of this year, with housing and consumer spending increases leading the way. Excessive stimulus could then again touch off another burst of double-digit inflation by pushing the economy beyond the limits of its capacity to produce.

Q-14: 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 did in fact suppress prices and wages, they created severe distortions. In some of our basic industries like steel and paper, as profits were squeezed down by controls, expansion plans were cut back, setting the stage for present shortages of these essential products. Ironically, controls thus eventually increased the pressures on prices rather than lessened them.

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

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product rises. This usually causes the profits of those companies who supply the product to rise over the short run; 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.

Price, wage and/or profit controls frustrate and distort this process. In the first place, even in the short run, 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 to 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.

Q-15: What about proposals for standby wage-price controls?

A: The problem with standby wage-price controls is that their very presence--even talk about them--creates an expectation that controls will be imposed at some future time. There is thus a rush by business and labor to raise prices and negotiate large wage increases before controls are slapped on. Compounding the problem, the resulting rise in wages and prices then provides the seeming justification for imposing controls.

Q-16: How can high corporate profits be justified in a period of economic difficulty like today?

A: The fact is that over-all corporate profits are not high and, at present, they are declining along with the economy. In the past two years, 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 good 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-17: 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 over 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-18: Why should people be concerned about whether businesses make a profit or not?

A: Because the best way to reduce inflation is to increase supply and production efficiency, 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, or the hope of adequate profits in the future, we suffer in adequate production capacity and inadequate productivity.

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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-19: What do you mean when you talk about boosting productivity?

A: The term productivity refers to the efficiency of our economy--the amount of real output that can be produced per worker (and also per unit of capital input).

The importance of increasing productivity is that it helps us achieve two very important national goals: It reduces costs and thus lessens inflationary pressures, and it increases total production and thus improves our standard of living. Indeed, in the long run, increased productivity is the only source of a rising national standard of living.

How can productivity be boosted? By cutting waste on the job and working "smarter"--and by increasing the quantity and quality of capital equipment available to each worker. This is why I put so much emphasis on the need for more savings and more investment. This country has been lagging far behind others in total fixed investment in new plant and equipment. For example, since 1960 U. S. capital formation (including residential) has averaged only about 19% of our total output--about the same as in the problem-beset United Kingdom. In the same period, the investment ratio was 25% for France, 26% for Germany, and 33% for Japan.

If the U. S. is to check inflation, stay competitive and continue to create abundance for its people, we must not only provide greater incentives for saving and investment but also remove impediments to efficiency throughout the economy. The National Commission on Productivity has been charged with the job of identifying problems in this area and recommending solutions.

Q-20: What are government "sacred cows"--and how do they block economic progress and spur inflation?

A: Over the years numerous legislative and administrative practices have developed in an attempt to protect special interests from excessive competition and uncertain economic risks. Many of these rules and laws have led to serious inefficiencies yet have become so entrenched that they are considered almost invulnerable to change--as though they have a protected "sacred cow" status. The general public should be concerned because an inefficient economy results in higher prices to all of us, lost work opportunities and an intolerable waste of this nation's resources.

There are hundreds--perhaps thousands--of restrictive economic practices which are officially sanctioned by government through its laws and administrative practices. For example:

* In agriculture there are still limitations by law on the number of acres that can be planted in peanuts, rice and extra-long-staple cotton. These laws limit supply which tends to support higher prices. Fortunately, some "sacred cows" in agriculture have fallen by the wayside, such as direct subsidies of farm exports and set-aside requirements for wheat, feed grains and cotton in 1974 and 1975, which released 42,000,000 acres for production.

* Railroads, truckers, airlines and water carriers are all burdened with excessive regulation over prices, services, facilities, etc. For example, railroads are required to operate services that do not even produce revenues equal to out-of-pocket costs. A recent National Productivity Commission study cited estimates that the Penn Central suffered out-of-pocket losses of $20 million per year from operating 5,000 miles--roughly one-fourth of its system. Additional maintenance costs were estimated to raise this amount by $16 million per year if the Penn Central was forced to continue to operate these lines after Federal Railroad Administration track safety standards are enforced. Yet abandonment procedures are slow and cumbersome. The costs of continued operation are minimized, the benefits overstated.

* In maritime transportation laws are enforced which increase the cost of goods delivered to American consumers and businesses. For instance, the Jones Act requires all cargo moving in the United States intercoastal trade to move in U. S.-built, U. S.-manned ships. Such ships are more expensive to build and operate than foreign ships, and the U. S. public winds up paying the higher bills.

* Some labor laws lead to increased costs. For example, the Davis-Bacon and Service Contract Acts are programs in which the Department of Labor issues determinations of "prevailing wages" in particular areas so that these may be paid on federally-supported projects. To the extent that the prevailing rate is taken as the prevailing union rate (as it is in most areas where a construction trade is more than 30 percent unionized) the costs to the government are higher than if the median wage rate were determined to prevail. This can raise the costs on federally-supported projects above what they would otherwise be.

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* In the field of energy a variety of government laws have restricted the development of natural gas, petroleum and coal resources and the siting and construction of needed nuclear power facilities and refineries. For example, Federal regulation of natural gas presents a classic case of mismanaged government intervention. For more than two decades, despite repeated warnings by experts, the Federal Power Commission has set the wellhead price of natural gas at an abnormally low level in order to hold down prices for consumers. But in the process the FPC also reduced the incentives for the development of new domestic supplies, with the result that there is now far less natural gas available than we need. In 1957, new discoveries of natural gas totalled approximately 22 trillion cubic feet. By 1972, despite the fact that natural gas was still plentiful underground, new discoveries were less than one-seventh of that level. In fact, the U. S. is now importing foreign liquified gas at prices much higher than the price of controlled domestic supplies, and we are facing serious curtailments again this winter for natural gas consumers.

These few examples show that too often, competition is eliminated or curtailed by our unwanted "sacred cows." This reduces the tough pricing and creative activity that we need in our system, with all Americans suffering in the process.

In an earlier stage of our economic development some of these practices may have been acceptable because new industries had to have a development period. Some of the labor practices may have been necessary to redress the balance of power. Various agriculture practices were perhaps useful in stabilizing a volatile industry during the 1930s.

But the U. S. economy is now far beyond this stage. We need to conserve our material resources, not waste them. We need to stimulate worker productivity, not smother it. We need to increase competition, not artificially protect the status quo. Finally, we need to develop dynamic new industries, not protect old ones which may have become obsolete or unable to compete in an interrelated world economy.

This progressive approach will create jobs, not destroy them. It will moderate price pressures. It will improve the use of available capital resources. Most of all, it will make our system more efficient and more capable of contributing to the welfare of all 213 million Americans.

Q-21: What about energy conservation? When are we going to start? With what? Is gasoline rationing coming?

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. Measures aimed at achieving this, as outlined by the President in his message of October 8, 1974, included 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.

Also set forth was a series of mandatory conservation steps for government and voluntary measures for the American people. The President further made it clear that if immediate reductions are not achieved, he would 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, moreover, 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-22: Will this recession lead to 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 7 percent in December.

We now have a substantial unemployment compensation program in being, plus a 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 not very sensitive to economic fluctuations--some of which, such as government employment, are essentially depression-proof.

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Q-23: How soon can we lick our economic problems and get back to stable, prosperous growth?

A: While we expect to see a turn-around later in 1975, 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 these 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. We have been living beyond our means--in effect, 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.

Q-24: 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-spend policies for government programs. Indeed, this is the most important single step that can be taken to restore both public confidence and economic order.

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FOR RELEASE 6:30 P.M.

January 8, 1975

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $2.0 billion of 52-week Treasury bills to be dated January 14, 1975, and to mature January 13, 1976, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:

High	- 93.657	Equivalent annual rate 6.273%	
Low	- 93.517	Equivalent annual rate 6.412%	
Average	- 93.551	Equivalent annual rate 6.378%	1/

Tenders at the low price were allotted 86%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	
Boston	$ 16,730,000	$ 6,730,000	
New York	2,856,700,000	1,758,020,000	
Philadelphia	26,175,000	6,175,000	
Cleveland	17,265,000	15,465,000	
Richmond	16,100,000	15,630,000	
Atlanta	5,880,000	5,880,000	
Chicago	161,790,000	70,010,000	
St. Louis	22,540,000	18,040,000	
Minneapolis	6,560,000	6,560,000	
Kansas City	22,910,000	16,610,000	
Dallas	9,495,000	7,495,000	
San Francisco	191,675,000	73,675,000	
TOTALS	$3,353,820,000	$2,000,290,000	2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 6.80%.

2/ Includes $61,360,000 noncompetitive tenders accepted at the average price.

EXECUTIVE OFFICE OF THE PRESIDENT

COUNCIL ON WAGE AND PRICE STABILITY 322

726 JACKSON PLACE, N.W.

WASHINGTON, D.C. 20506

EMBARGOED UNTIL 9:00 PM EST
Thursday, January 9, 1975

FOR INFORMATION CALL:
(202) 456-6757

REMARKS BY ALBERT REES, DIRECTOR
COUNCIL ON WAGE AND PRICE STABILITY
BEFORE THE BOARD OF DIRECTORS
OF THE
NATIONAL ASSOCIATION OF FOOD CHAINS
BAL HARBOUR, FLORIDA
JANUARY 9, 1975

WILL THERE BE NEW WAGE AND PRICE CONTROLS?

During that quiet week in Washington between Christmas and New Year's Day, I was visited by your President, Mr. Danzansky and your Executive Director, Mr. Adamy, and that visit led to my being here tonight. Your officers informed me that you are gravely concerned by talk of renewed wage and price controls, and invited me to address myself to that concern. I am most happy to do so.

Of course, there are may economists, former Government officials, and even some businessmen who have been saying that controls work in curing an inflation. Among the most distinguished of these are Mr. Chester Bowles, Mr. Robert R. Nathan, and Professor John Kenneth Galbraith, all of whom helped to administer price controls during World War II. They point to the flatness of the official price indexes during periods of controls. I cannot agree with their view of these events. My differences with these gentlemen stem from the differences in our experiences during that period. While they were running the OPA, I was managing a supermarket. When a customer came to me and asked for sardines, I would reply, "We can't get sardines except at black market prices, and we don't deal in the black market." "Well," the customer would say, "the store down the street has sardines" and she would go down the street not just for her sardines, but for her whole week's food shopping. The ceiling price of sardines, at which almost none were sold, might enter an official price index, but the black market price never did.

During a war emergency, when controls are reinforced by the spirit of patriotism, they may have some effect in curing inflation, but for the most part the effect is merely to suppress the symptoms. A large bubble of price increases then comes to the surface when controls are lifted.

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The renewed interest in controls has gone beyond mere talk. Bills to restore controls have been introduced into the Congress, and others are being prepared for introduction when the new Congress convenes. Senator Mansfield introduced S. 4174, a bill "to stabilize prices, rents, wages, salaries, dividends, interest rates and other economic transfers." Senator Sparkmen, Chairman of the Committee on Banking, Housing, and Urban Affairs, asked me to comment on that bill and on December 19, I did so, opposing its enactment. In so doing, of course, I was not speaking merely for myself. I was restating the views of President Ford with the express approval of the Administration. The last sentence of my letter reads "We are advised that enactment of S. 4174 would not be in accord with the program of the President." That standard phrasing is used to indicate that the bill, if passed, would be vetoed, and it is so understood by the Congress.

In my reply to Senator Sparkman, I used several examples from the food industry of the economic distortions caused by controls between August, 1971 and April, 1974. I pointed out that price controls are one of the causes of the present high price of sugar. In 1974 we had a reduced acreage planted in sugar beets, because the price of beet sugar, a processed product, was controlled in the Spring of 1974, while the prices of other crops that are sold as raw agricultural products were free to rise. Another example of such distortions was the pronounced drop in the slaughter rate of domestic cattle in March, 1973, following the imposition of a price freeze on beef, and again from mid-July to September 12, after the announcement that the freeze would continue until the latter date. For some time after September 1973, the cattle that came to market were excessively fat because they had been held too long on feed lots. This excess fat caused part of the apparent rise in marketing margins on beef about which consumer organizations and cattle raisers have been complaining.

I also included in my reply an example of wage inequities arising from controls in the retail food industry. As you know, wage increases negotiated after November 14, 1971, were generally held to 5.5 percent, while contracts negotiated earlier were allowed to run according to their terms, or if challenged were generally held to no less than 7 percent. As a result, during Phase II there were many cases where workers in the same occupation and the same local union, who had always received the same wage rate, were receiving different rates because their employers had signed identical agreements, but had done so at dates a few weeks apart. If your journeyman meatcutters are getting $5.50 an hour and your competitor's get $5.75 and you are not permitted to close the gap, you may lose experienced workers, and the morale and productivity of your work force may suffer. It took the Tripartite Food Wage and Salary Committee in Phases III and IV about a year of hard work to clean up messes of that type. I enjoyed that work because I got to know many able executives and union leaders from the food industry, but I know that they had better things to do with their time, such as running their businesses or their unions.

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One other example of the problems created by controls is very relevant to your present concerns as you seek to maintain your volume of business when demand is falling. During the price freezes of 1971 and 1973, grocery wholesalers and retailers were "locked in" to low prices set during temporary special deals and allowances offered as part of manufacturers' promotions. Such special deals and allowances serve a traditional and legitimate function in food distribution. But penalizing manufacturers and distributors by requiring them to maintain such promotional prices beyond the intended period is not a very sensible way to administer controls. This unfortunate experience is now discouraging money-saving promotions during the present unwarranted fear of a new freeze.

I indicated a moment ago my firm conviction that the President would veto any bill mandating general wage and price controls. But my conviction goes beyond this. I believe that it is highly improbable that such a bill will pass during the next Congress, despite the talk we all hear. I do not spend much time on Capitol Hill and cannot qualify as an experienced Congress watcher. But I do know the views of several senior members of the Senate Committee on Banking, Housing, and Urban Affairs which considers such bills in the upper house, and these members are still strongly opposed to controls. Senator Proxmire, who will be the Chairman of this Committee in the new Congress, gave a speech in the Senate on December 2, which he entitled, "Congress should not be Steamrolled into Dominating or Straightjacketing the Economy." I commend that speech to anyone who thinks that controls are either inevitable or desirable, in the belief that it will help to change his mind on both counts. The Joint Economic Committee of the Congress has recently issued a report on inflation call "Achieving Price Stability Through Economic Growth." The Committee unanimously concluded that "comprehensive wage and price controls are economically inappropriate and politically unrealistic at the present time".

Economic trends are reinforcing the position of those members of Congress who do not believe that controls are desirable. Inflationary pressures are abating. Shortages are easing. Prices of many raw materials have been falling for some time All of the economic forecasters are predicting a substantially lower rate of inflation in 1975 than in 1974. In the food industry, we have seen substantially lower prices for beef, rice, potatoes, and beans and slower rates of increase for many other products. But we cannot, of course, predict that inflation will end in 1975. If nothing else, rising wages, disappointing productivity performance, and the increasing cost of energy will unfortunately insure that inflation will remain a problem, though a less severe one.

The probability of new controls is further decreased to the extent to which we in the Council on Wage and Price Stability succeed in our program of encouraging voluntary wage and price restraint. I am pleased to report that in our efforts so far we have had the full and friendly cooperation of the National Association of Food Chains and the Super Market Institute.

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In the past few weeks we have had considerable success in persuading several major steel companies to moderate their price increases. In general, they rolled back their announced increases by about 20 percent. The balance of the price increases we believe to be justified on the basis of increased labor and materials costs. For one product, however, the rollback of announced price increases was about 37 percent, and that product is tinplate. The choice of tinplate was not accidental. All increases in the price of steel will eventually show up somewhere in the price of consumer goods and services. However, for tinplate the link is very swift and direct. Tinplate goes into cans, and increases in the price of cans are quickly reflected in the prices on grocery shelves. As you all know, the cost of a can now frequently exceeds the cost of its contents. By exercising special restraint in the price of tinplate, the steel companies were helping to wind down our wage-price, price-wage spiral.

Just as the private sector can take actions that make controls less likely, it can also take actions that make new controls more likely. This happens when businesses and labor organizations make unreasonable use of the freedom from controls they fought so hard to win last spring. When the creation of the Council on Wage and Price Stability was announced, some business economists publicly advised their clients that this was the first step back to controls and urged their clients to raise prices while they still could. More recently, some of you have been advised by legal counsel not to reduce prices for special promotions for fear that you would be caught in a new price freeze. I can understand the zeal of advisers and counselors to serve the interests of their clients -- that is how they earn their living. But if they conceive these interests too narrowly, they not only damage the national interest, but they may damage the interests of their own clients in the longer run.

The advice to raise prices or raise wages as much as possible to beat the coming of controls could unfortunately be a self-fulfilling prophecy. In my judgment there is only one thing that will give controls more chance than a snowball in Miami, and that is for people in this room, and others like you who make wage and price decisions, to accept the unfounded view that controls are inevitable and to behave accordingly. If you don't compete aggressively as you normally do, or if you are afraid to lower prices to promote your wares or to pass on reductions in costs to your customers, then and only then does the talk of controls have any chance of prevailing.

I beg you not to become the vehicle for making your own nightmares come true.

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FOR IMMEDIATE RELEASE JANUARY 9, 1975

TREASURY LISTS COMPLAINTS RECEIVED UNDER COUNTERVAILING DUTY LAW

Assistant Secretary of the Treasury David R. Macdonald today announced that pursuant to provisions of the Trade Act of 1974, signed by President Ford on January 3, 1975, the Treasury will publish shortly a notice listing all complaints which have been received under the countervailing duty law and in which the Treasury has not yet published notice of an investigation. Under previous Treasury procedures no public notice was made until after an inquiry had been conducted establishing the probable validity of the allegations. Now, however, the Act requires that all complaints, alleging that goods exported to the U.S. have benefitted from bounties or grants in the country of export be published, when received in proper form, and that complaints pending on the date of enactment of the Act be treated as if received on the day after that date.

Mr. Macdonald said that the notice would list 30 separate cases from 19 different countries, involving a variety of products. He emphasized that under the new procedures, publication of the notice, which will appear in the Federal Register sometime next week, is a procedural step required by law, and does not indicate that Treasury has made any decision on the validity of the allegations contained in the complaints. In these cases, the Treasury will have up to six months to investigate these charges and to make a preliminary determination, and then up to an additional six months before deciding whether the imposition of additional, countervailing duties is warranted. He added that while no notice of investigation has previously been published in any of these cases Treasury has in several instances already conducted inquiries and engaged in discussions with the governments concerned. For instance, in the case of dairy products from the European Community considerable progress has already been made toward resolving the issues in that complaint.

In addition to these 30 cases there are four other countervailing duty investigations which were formally opened prior to enactment of the Act, which are pending. Those investigations should be completed in the near future.

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Attachment

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Cases where Notice of Receipt of Complaint Will Be Issued

Commodity	Country
Float Glass	Belgium
Float Glass	Italy
Float Glass	France
Float Glass	West Germany
Float Glass	U.K.
Processed Asparagus	Mexico
Dairy Products	EC Member States
Ferrochrome	South Africa
Footwear	Taiwan
Cheese	Austria
Cheese	Switzerland
Leather Handbags	Brazil
Non-rubber Footwear	Korea
Canned Hams	EC Member States
Shoes	West Germany
Leather Products	Argentina
Steel Products	West Germany
Steel Products	France
Steel Products	Netherlands
Steel Products	Luxembourg
Steel Products	Belgium

Commodity	Country
Steel Products	United Kingdom
Steel Products	Austria
Cotton Textiles and Manmade Fibers	India
Dried Apples	Italy
Cast Iron Soil Pipe & Fittings	India
Tie Fabrics	Korea
Tie Fabrics	West Germany
Tie Fabrics	Japan
Oxygen Sensing Probes	Canada

federal financing bank NEWS
WASHINGTON, D.C. 20220

Press inquiries:
202-964-2615

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FOR IMMEDIATE RELEASE January 9, 1975

SUMMARY OF LENDING ACTIVITY
DECEMBER 23, 1974 - JANUARY 3, 1975

Federal Financing Bank lending activity for the period December 23, 1974, through January 3, 1975, was as follows:

On December 23, the Student Loan Marketing Association (Sallie Mae) borrowed $40 million from the Federal Financing Bank; $20 million at 7.12% maturing January 30, 1975, and $20 million at 7.21% maturing December 16, 1975.

The Bank closed two transactions with the Tennessee Valley Authority in the recent two-week lending period. On December 26, TVA borrowed $220 million at an interest rate of 7.42%. The loan, which matures on March 27, 1975, refunded an existing $220 million loan with the FFB. On December 31, TVA borrowed $170 million at 7.57%. This loan matures March 27, 1975, and provides new money for TVA.

On December 31, Amtrak, the National Railroad Passenger Corporation, made a $3 million drawing against the $100 million line of credit signed October 11, 1974. The interest rate is 7.621%. This brings the amount borrowed under the October commitment to $40.9 million.

Federal Financing Bank loans outstanding on January 3, 1975, total $4.5 billion. Unfilled commitments total $4 billion.

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FOR RELEASE ON DELIVERY

ADDRESS OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE UNIVERSITY OF MICHIGAN BUSINESS CONFERENCE
COBO HALL, DETROIT, MICHIGAN
8:00 P.M., EST, JANUARY 9, 1975

It is a great privilege to return to Detroit this evening and to address such a distinguished audience.

I feel honored, indeed, by the University for this opportunity to speak here, and I want to thank Dean Bond and all the others who have made this possible.

We talk a good deal about Michigan in our meetings back in Washington, and as you can imagine, most of our discussions are prompted by the unhappy state of your economic affairs. We fully appreciate the fact that unemployment here is higher than almost anywhere else in the Nation, that industry is in the doldrums, and that thousands of people are suffering. These are matters of acute concern to the President as well as his advisers.

I come here with no instant solutions for, as you know, there can be no such thing as a quick fix in today's economic world. The problems we face have been gathering momentum for a decade or more, and they will take time to cure.

Yet we would be utterly foolish to panic now or to be mesmerized by those who continually see a catastrophe lurking around every corner.

During the Second World War, young officers used to marvel at the way that General George Marshall maintained his composure and dignity despite frequent predictions of disaster. How do you do it, they asked, "Because I have seen worse," he replied.

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Well, America has seen worse, too. We have faced many difficult challenges in the past, and we have always rallied to overcome them. We will do that again today if we keep our cool, maintaining faith in ourselves and in the institutions that have been the bedrock of our greatness and acting together as a united, free people.

I am particularly concerned tonight by the degree to which public apprehension and uncertainty about our future are caused not simply the many real economic pressures we are experiencing, but by a number of economic myths that are now widely accepted. Both the government and private industry have a large job ahead in restoring public confidence, and to succeed in that task it is essential that we clear up public misunderstandings about the nature of our problems. For that reason, I want to address two of the most popular economic myths here tonight.

Myth #1: "We Don't Know How We Got Here"

One often hears that we have entered a new and strangely different world in economics and that we don't really understand how we got here. Americans have known periods of recession and high inflation before, but rarely -- if ever -- have we had both together in such a virulent combination. It is true that the economy has become sufficiently complex that no one can fully understand its nuances nor predict its developments with scientific precision. But that does not mean that we are ignorant of its fundamental forces. In fact, I would argue that the underlying causes for our current dilemmas are readily apparent. The idea that the economy has somehow eclipsed our powers of understanding is both false and unduly defeatist.

Our problems are rooted to a very large degree in the mistakes of the past -- the decade or more when our Government has spent far more than we could afford, when we were profligate with our resources and, as Adlai Stevenson once put it, we confused the free with the free and easy. For too long we have naively believed that our Government could solve every social problem by throwing more money at it and that all of the problems could be solved simultaneously. Even though it required 300 years to build 60 million units of housing, we blithely assumed that we could add 26 million more in a single decade. Even though almost a century was needed to build the finest transportation system in man's history, we thought we could replace that system with mass transit in a single decade. And even though pollution was an inevitable by-product of the industrial revolution, we thought we could restore our environment to a near-pristine state practically overnight and still maintain our same level of economic growth.

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The results of such false expectations were easily predictable: The powers and size of the Government have been enormously enlarged but our problems have only grown worse. It took 186 years for the Federal budget to reach $100 billion, a line it crossed in 1962, but then only nine more years to reach $200 billion, and only four more years to break the $300 billion mark. Revenues, of course, have not kept up with expenditures, so that when we close the books on fiscal year 1975, we will have had budget deficits in 14 of the last 15 years -- a truly miserable record.

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. In short, 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.

Yet these reported Federal deficits are only the beginning of the story because they do not include borrowing by State and Local Government or by the "off-budget" agencies sponsored by the Federal Government. In fiscal year 1974, the combined borrowings by all forms of governmental activity accounted for no less than 60 percent of the net funds raised in the capital markets in the United States. To me, that is an alarming figure, for when the Government usurps the capital funds available, the entire system is disrupted. Borrowers must seek out other sources of capital, interest rates rise, and eventually the housing market cracks. Furthermore, personal consumption declines, business investment falters, and jobs are lost. Ultimately, the system can break down because capital is no longer available. For the safety and vitality of our free enterprise system, it is imperative that we halt this continuing surge of government spending.

An additional factor underlying our current problems is the excessive monetary stimulus we have pumped into the economy over the past decade. From 1955 to 1965, the money supply expanded at the rate of about 2 1/2 percent a year, and we enjoyed reasonable price stability. From 1965 on, however, the annual rate of increase jumped to over 6 percent, and in 1972-1973, the annual rate rose to 7.4 percent. With the money supply expanding more rapidly than the economy itself, it should have come as no surprise when the rate of inflation also began climbing upwards.

Still another cause of our malaise is the gradual accumulation of hundreds of government policies which inhibit the efficiency and effectiveness of our economic system. The Government now

now directly controls several of our major industries -- air, rail and truck transportation, power generation, television, radio, and the securities industry, to name the most obvious -- and exerts enormous influence over others such as the auto industry through environmental controls, tax laws, safety standards, and the like. Certainly the Government has a positive regulatory role to play within our society, but we have bartered away far more of our economic freedom than is either necessary or healthy.

It is clear to me, and I suspect it is becoming clear to the public, that we now have more government than we need, more government than most people want, and certainly more government than we are willing to pay for.

These three factors -- fiscal policies, monetary policies, and over-zealous Government regulation -- are the basic underlying causes of today's problems, causes which alone could be highly disruptive. But their impact has been greatly magnified by four other special factors which are much more recent in origin and which have been at least as harmful.

First, we have been saddled with an unreasonable and largely unexpected quadrupling of the international prices of crude petroleum. The average American certainly recognizes the impact of this event on gasoline and home heating fuel prices, but we often ignore its pervasive effects on chemicals, plastics, transportation, man-made fibers, and petrochemicals. While the effects of the oil cartel have been somewhat offset in this country by the availability of domestic supplies, the nations of Europe and Japan are experiencing much more difficult problems. There can be no doubt that oil now poses the most urgent economic problem in the Western World.

Second, in the face of rapidly increasing world demand, there has been an unprecedented series of crop setbacks here and abroad in 1972, 1973 and again in the 1974 harvest. As a result, food prices in the United States have risen by 33 percent in only two years, and much of the world is experiencing severe shortages. Preliminary indications are that food prices will continue to rise at a fast pace throughout 1975.

Third, in another highly unusual occurence, most of the industrialized nations experienced a simultaneous boom during the early 1970s, dramatically increasing world demand for many raw materials and thus driving up prices.

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Fourth, we are still suffering from the accumulated distortions of three years of wage and price controls. As we should have learned from World War II and Korean experiences, artificial restrictions cannot eliminate underlying wage and price pressures; they only bottle them up and when restrictions come off, prices explode. Moreover, the controls of the 1970s helped to divert capital investments, created artificial motivations for exports, distorted competitive relations, and in general reduced economic efficiency. We shall be paying the price for some time to come.

Piling these four special factors -- higher oil prices, higher food prices, increasing world demand, and wage and price controls -- on top of an economy that was already overheated had the same effect as dumping gasoline on a hot charcoal broiler: the flames of inflation roared upward to their highest levels in peacetime history. And that fire was so intense that it gutted some of the main underpinnings of our economy, helping to carry us into a recession.

Let me dwell for a moment on the way that inflation has helped to cause the current recession, for that point is not well understood. In every period of inflation, interest rates also increase. In this case, because the inflation rate rose to such high levels, interest rates also rose to breath-taking heights. We soon began to experience severe financial instability, there was a heavy outflow of funds from thrift institutions and a sharp squeeze on mortgage credit, and -- finally -- the bottom dropped out of the housing market. We are now in one of the worst housing slumps on record.

Similarly, the inability to curb inflation was a major factor -- perhaps the major factor -- in demolishing consumer confidence. Polls taken by the Survey Research Center at the University of Michigan show not only that consumer confidence is extraordinarily low, but that it began its precipitous decline when prices started shooting upwards -- and that was long before the recession hit. While the recession has driven confidence even lower, inflation was the force that pushed it over the brink. I need not remind you that this loss of consumer confidence has had a crushing impact on auto sales and the sales of other consumer goods. In fact, the loss of confidence has led to the biggest drop in consumer purchases since the Second World War.

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Consumer sales and housing are now the two weakest factors in the economy. Since they play such an important role in the recession, I think the point is clear that recession and inflation are rooted in many of the same causes. They are really part of the same disease.

It is also worth noting that, contrary to public expectations, high rates of inflation may continue even as the economy undergoes a recession. That has been true of every bout with recession during the past quarter of a century. Let me explain the logic to this seeming paradox. The first stage of any disinflation is to cool off the inflated and overheated demands that caused the inflation. Time, however, is required for price-making forces to move through the economy, and for a while recession and price inflation will continue together. As the economy begins to pick up again, the expansion of output and the actions to pare costs begin to yield large gains in output per man hour and a more favorable cost performance. As a result, the price level traditionally begins to stabilize during the periods of recovery. In the present case, because some of the causes of inflation have already subsided, we expect the inflation rate to come down substantially during the recession, but our best assurance of long-range price stability and economic growth is to purge the economy of the factors which have caused both the inflation and the recession.

<u>Myth #2: "We Don't Know How To Get Out Of Here"</u>

Once we realize that there are no mysteries about the causes of our economic problems, we should also recognize that there is little mystery about their cures. That is why I am continually perplexed by a second myth that is widespread today: the notion that "we don't know how to get out of here." To me, the general directions in which our policies must lead are clear; the hard questions arise in trying to select options for reaching those goals and in setting priorities.

As you know, President Ford and members of his Administration are devoting an enormous amount of time to these questions. Many difficult policy choices have been put before the President, and he is acting upon them with the greatest care and with acute concern for the needs of all Americans. Later this month, he will present a comprehensive set of economic and energy proposals to the Congress and the American people. I hope they will merit your support and, when they do, you will be active in seeking their approval.

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It would be premature to discuss any of the President's decisions here tonight, but I would like to tell you the context in which the President is working and outline the general goals of our policies.

Some people feel that we must make an agonizing choice between fighting inflation and fighting recession. The fact is that these two forces are so closely related that we must attack both at the same time. We cannot afford the luxury of concentrating upon one at the expense of the other, for both are social dynamite.

The President is fully aware of the dangers facing the economy. He knows what's happening here in Michigan. He knows of the hardships that result from unemployment and, of course, he wants to minimize the extent of the current recession. Yet neither he nor anyone else within the Administration wants to set off another round of roaring inflation, which would only risk an even more serious economic collapse later. We are beginning to make some inroads against inflation, and we want to continue that progress. In seeking solutions, then, we must be bold but we must not be reckless.

Reduced to their simplest terms, our general goals for the future must be these:

First, while the question of how much stimulus Federal Government should provide to the economy over the short run is one of the most difficult facing the President, the long-run goal is to restore greater discipline to our fiscal affairs. The keystone of this effort must be firm expenditure control. To continue the excessive spending policies of the past would not only prolong our economic troubles, but would insure almost total Governmental domination of the economy. This is one of the gravest dangers now facing this country, and it is one that we must all face soon.

Second, we must have a monetary policy that fully supports a resumption of economic expansion but avoids the creation of excessive stimulus. When the money supply expands more rapidly than a sustainable rate of growth, as it frequently has over the past decade, we can only expect further inflation and all the problems that come with it. At the same time monetary policy today must play an essential role in establishing the foundations for vigorous and orderly growth ahead.

Third, we must launch a concentrated attack on Government policies which waste our human and material resources through artificial controls and inefficiency. A few months ago, a former member of the University of Michigan faculty who is now serving in a high post in the Treasury, Dr. Sidney Jones, catalogued the many policy recommendations for economic actions by the Government. His paper included 86 specific policy recommendations for immediate action and over 200 additional suggestions for future action. He recognized that many of the 200 additional suggestions could not be taken now because there was no conceivable way of overcoming the entrenched opposition of special interest groups and the Congressional interests and bureaucracies which support them. Such conditions are no longer acceptable in today's economic environment, and we must continue working until we change them.

Fourth, we must be guided by compassion and understanding for those who have been hit the hardest by our economic troubles--those who have lost their jobs, low-income Americans, and those whose real incomes have been eroded by inflation. They deserve special attention, and they will continue to receive it under this Administration.

Fifth, we must move ahead much more rapidly than we have in the past on both sides of the energy equation: supply and demand. Legislation that would permit and encourage a vast increase in our domestic supplies has been bogged down on Capitol Hill for as long as four years, seriously handicapping our efforts to get on with the job. The Alaskan Pipeline is a classic example of the price we are paying for such inexcusable delays. The oil industry first estimated the new pipeline could be placed in service in 1973 at an estimated cost of $900 million. Because of opposition and delays and the need to resolve environmental issues, the pipeline is not expected to go into operation before late 1977, and projected costs have reached $6 billion.

In terms of conservation, we have made much more progress through voluntary efforts than is generally recognized, but it is also apparent that we must now go beyond those efforts. That will necessarily mean a degree of personal sacrifice by all of us, but President Ford is fully confident that the American people understand this need and are prepared to meet it.

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Finally, we must focus on achieving maximum production of food. After 40 years of curtailing agricultural production through artificial restrictions, we are now loosening the Government strait-jacket and opening up markets abroad so that farmers have an incentive to produce. More than 60 million acres have now been removed from set-aside programs, and over half of these have been converted to active production. With relatively decent weather, you can expect to see rapid increases in overall production levels.

As I told a farm audience earlier this week, all of us should learn a lesson about free enterprise from the farmers. The progress they have made because they are no longer under the thumb of the Government can also be made in energy and transportation and many other fields where Government regulation now impedes growth and development. The private enterprise system helped to give this nation the highest standard of living that man has ever known, and if we can only unleash those powerful engines once again, as we are in agriculture, then we can put this country back on the road to prosperity.

The road toward acheiving these long-range goals will surely be rough and uneven. As the President has said, some of the choices now on his desk could not be tougher or more complex. But I would submit to you tonight that the real question is not whether we understand our problems or can devise solutions to them--we can--but whether we have the courage, the determination and the self-discipline to apply the right remedies.

CONCLUSION

Personally, I have great faith in this country and in our ability to lift ourselves out of this morass. I want to assure you that in seeking solutions in Washington, we will remain keenly aware of your concerns in Detroit and that we will try to work with you as closely as possible. In turn, I ask for your help, for it will require the efforts of every one of us to ensure that as we work our way out of this crisis, we also preserve our cherished freedoms.

The private enterprise system has long been a cornerstone of our freedoms and has provided this nation with enormous abundance. But in today's economic turbulence, there are great temptations to replace that system with the forces of centralized government. The government has become so huge and domineering--and we have turned to it so often for solutions that have fallen short of our dreams--that the time has come to re-discover how much can be accomplished by private enterprise and by men and women who are free to determine their own destinies.

In coming weeks, if we are tempted once again by the siren songs of controls and other forms of centralization, we will not only inflict enormous damage upon our economy but we will also place the free enterprise system in the greatest danger it has faced in our lifetimes. That system is already under siege: it is mindlessly distrusted by far too many people--and, wherever it is displaced, the Government quickly fills the vacuum. This generation--our generation--may be the last which can stop the swing of the pendulum before it is too late. As men and women at the heart of American industry, I urge you to stand steadfast for that cause.

Thank you.

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WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE January 10, 1975

TREASURY ANNOUNCES TENTATIVE NEGATIVE DETERMINATION
IN ANTIDUMPING INVESTIGATION ON
CHICKEN EGGS IN THE SHELL FROM CANADA

Assistant Secretary of the Treasury David R. Macdonald announced today a tentative negative determination in the investigation of chicken eggs in the shell from Canada under the Antidumping Act, 1921, as amended. Notice of this decision will appear in the Federal Register of January 13, 1975.

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

Imports of chicken eggs in the shell from Canada for the period January 1, 1974 through August 31, 1974 were valued at approximately $3.7 million.

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NEWS

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FOR IMMEDIATE RELEASE January 10, 1975

ANTIDUMPING INVESTIGATION INITIATED
ON BIRCH 3 PLY DOORSKINS FROM JAPAN

The Treasury Department announced today the initiation of an antidumping investigation on imports of birch 3 ply doorskins from Japan.

Notice of this action will be published in the Federal Register of January 13, 1975.

A birch 3 ply doorskin is a thin flat panel used as a face in the assembly of a flush door.

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

During the period of January 1, 1974, through December 31, 1974, imports of birch 3 ply doorskins from Japan were valued at approximately $8,000,000.

# # #

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

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FOR IMMEDIATE RELEASE JANUARY 10, 1975

Netherlands Minister of Justice Andreas Van Agt, who also serves as Deputy Prime Minister, met January 9, 1975 with Treasury Assistant Secretary David R. Macdonald, Commissioner of Customs Vernon Acree, and other high Treasury officials, to discuss law enforcement issues, including narcotics, and avenues for cooperation between their two countries.

Minister Van Agt was accompanied by Abraham Fonteijn, Netherland's Deputy Secretary General and Director General of Police, Ministry of Justice, and Leendert Oranje, Director of Constitutional and Criminal Law, Ministry of Justice.

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FOR IMMEDIATE RELEASE January 10, 1975

PARSKY APPOINTS GERARD
DIRECTOR, OFFICE OF CAPITAL MARKETS POLICY

Assistant Treasury Secretary Gerald L. Parsky has appointed Robert A. Gerard as Director of the Office of Capital Markets Policy. Gerard joins Treasury from the Washington law firm of Wilmer, Cutler & Pickering.

Commenting on the appointment, Treasury Secretary William E. Simon said that "our need for capital will be particularly acute in the years to come, and we must develop policies that will strengthen our capital markets so that these needs may be met."

Explaining the duties of the Director, Parsky said that the Director has the "responsibility for developing and coordinating Executive Branch policy concerned with capital markets operations."

"The office," he said, "also will work closely with Congressional committees responsible for legislation in financial areas."

Gerard is a graduate, cum laude, of Harvard University (1966) and the Columbia University Law School (magna cum Laude, 1965). He has also clerked for the Federal Appeals Court in Washington.

Gerard and his wife, Lisa, live in Washington.

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January 10, 1975

MEMORANDUM TO CORRESPONDENTS:

The attached record of actions by the Office of Economic Stabilization is released for your information. Please note the following correction in the previous November 9 - December 27, 1974 decision list issued December 31, 1974.

CORRECTION:

Compliance Actions

Request for Review of Remedial Order - Order

R. R. Donnelley & Sons Company, Chicago, Illinois.

OES has issued an order on the request for review of its remedial order issued on November 27, 1974 to R. R. Donnelley & Sons Company and the members of its Executive Control Groups ("ECG"). The order states that the company through payment, and the members of the ECG through receipt, of $160,168 of incentive compensation for the company's fiscal year ended December 31, 1973, in excess of the amount allowed to be paid under the provisions of the Phase IV executive compensation regulations violated the said regulations. The order finds that the repayment to the company by the members of the ECG of the excess compensation would be appropriate.

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FOR RELEASE 6:30 P.M. January 13, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.6 billion of 13-week Treasury bills and for $2.2 billion of 26-week Treasury bills, both series to be issued on January 16, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 17, 1975			26-week bills maturing July 17, 1975		
	Price	Equivalent Annual Rate		Price	Equivalent Annual Rate	
High	98.320 a/	6.646%		96.654	6.618	
Low	98.307	6.698%		96.637	6.652	
Average	98.312	6.678%	1/	96.640	6.646	1/

a/ Excepting 1 tender of $410,000

Tenders at the low price for the 13-week bills were allotted 54%.
Tenders at the low price for the 26-week bills were allotted 79%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 60,620,000	$ 33,405,000	$ 27,155,000	$ 13,395,000
New York	3,594,830,000	1,932,685,000	3,841,420,000	1,770,220,000
Philadelphia	34,980,000	31,550,000	40,580,000	15,580,000
Cleveland	55,755,000	48,020,000	119,970,000	29,040,000
Richmond	31,540,000	28,240,000	62,255,000	20,570,000
Atlanta	62,625,000	38,375,000	53,955,000	22,595,000
Chicago	318,330,000	126,675,000	241,225,000	39,205,000
St. Louis	45,525,000	32,675,000	58,395,000	14,595,000
Minneapolis	21,475,000	5,475,000	17,490,000	2,490,000
Kansas City	69,725,000	43,855,000	35,065,000	27,855,000
Dallas	38,955,000	25,185,000	25,180,000	15,180,000
San Francisco	386,785,000	254,770,000	389,750,000	232,170,000
TOTALS	$4,721,145,000	$2,600,910,000 b/	$4,912,440,000	$2,202,895,000 c/

b/ Includes $484,320,000 noncompetitive tenders accepted at average price.
c/ Includes $273,215,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 6.89% for the 13-week bills, and 6.97% for the 26-week bills.

Q&A

Facts and Figures:

International Development Banks

Office of Assistant Secretary for International Affairs

Office of International Development Banks

December 1974

Q&A

Facts and Figures:

International Development Banks

Office of Assistant Secretary for International Affairs

Office of International Development Banks

December 1974

Part I:

Questions and Answers

Q What are the international development banks?

A The international development banks are multilateral, non-profit, public organizations created to stimulate economic growth among less-developed countries. To help achieve their objective these institutions assist in preparing and financing high-priority projects in less-developed member countries. Funds for projects are contributed by member countries and borrowed from the public, governments, and central banks. The money is spent to help finance various types of projects, such as transportation, agriculture, power, industry, education and water supply. Because of their experience, technical expertise, and relative freedom from political considerations, these institutions are in a strong position to influence developing countries to increase their productivity and to become more able to establish self-sustaining growth by improving their overall economic programs and policies.

Q Does the United States participate in any of these development organizations?

A The United States is a charter member of the three major international development banks: the World Bank Group*, the Inter-American Development Bank and the Asian Development Bank. Membership in the new African Development Fund, a special loan facility of the African Development Bank, is under consideration in the Congress.

Q How are policies set in the international development banks? How are member countries represented?

A Policies in the international development banks are set by the Boards of Governors—who are usually Ministers of Finance in member countries—and the Boards of Executive Directors at each of the banks. Member countries select their own Governors and Executive Directors. Although the Board of Governors in a bank is its highest policy-making body, the Board of Executive Directors, who work full-time at the banks and meet with each other frequently, set most of the basic policies and operations.

The Secretary of the Treasury is the U.S. Governor for each bank and has overall responsibility for U.S. participation. He is supported by the U.S. executive directors, who are appointed by the President of the United States with the advice and consent of the Congress. He is also supported by the staff in the Office of the Assistant Secretary for International Affairs of the Treasury.

Bank policies and activities are reviewed by a U.S. Government interagency council, the National Advisory Council on International Monetary and Financial Policies, to assure that bank policies are in line with

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*Composed of the International Bank for Reconstruction and Development (IBRD), International Development Association (IDA) and International Finance Corporation (IFC).

U.S. foreign and financial policy. The Department of State, Department of the Treasury, Department of Commerce, Federal Reserve Board and the Export-Import Bank are among those agencies participating in this Council. The Treasury Department also works closely with Committees and Members of Congress to prepare funding proposals for the development banks. In all negotiations with the banks it is made clear that only after Congressional approval will the United States Government enter into a commitment to provide its share of the proposed resources.

Q **Why have regional development banks been formed, such as the Asian, African, and Inter-American development banks, since most of the countries in these areas already belong to the World Bank?**

A These regions, with countries among the world's least developed sought to help themselves by establishing their own development banks, which now play an increasingly effective role in the development of those areas.

Although most of the countries in these areas do belong to the World Bank, a regional effort can bring special expertise to a project because of such a bank's close familiarity with a specific area's needs. Regional bank projects are generally smaller than World Bank projects, therefore fulfilling certain financial needs for which they are best suited.

Q **How much has the United States contributed to the banks over the years?**

A Through June 30, 1974, the U.S. has made cash contributions to the World Bank (IBRD) of $781 million, or 25 percent of cash contributions from all countries; to the Asian Development Bank (ADB), $121 million, or 7 percent of the total; and to the Inter-American Development Bank (IDB), $362 million, or 37 percent of the total. These amounts are actual paid-in contributions. Additional "callable" capital has also been authorized to the three institutions. However, this callable capital is used to guarantee bonds of the international development banks and would be used only in the event a bank could not pay off its bonds because of loan defaults.

In addition to the amounts provided above for loans on conventional terms, the United States has also contributed funds for loans on concessional terms. Through June 30, 1974, the U.S. contributed to the International Development Association (IDA)—a part of the World Bank Group—$2.5 billion, or 38 percent of the total; it contributed to ADB's Special Funds (SF) $50 million, or about 13 percent of the total; and to the IDB's Fund for Special Operations (FSO) $3,040 million or 69 percent of the total. In 1960, the United States established a Social Progress Trust Fund for Latin America, of which $494 million is administered by the IDB.

Q **Does the amount contributed by a country relate at all to its voting powers within the banks?**

A Yes, a country's voting power is weighted proportionately according to its contribution. Consequently, the more a country contributes, the more influence it may exercise. As of June 1974, the U.S. had voting strength of 23 percent in the IBRD, 24 percent in the IDA, 40 percent in the IDB, and 8 percent in the ADB.

Q **How much of the United States federal budget in recent years has gone for foreign economic assistance, and in particular for contributions to the international development lending institutions?**

A Over the fiscal years 1970-1974, United States outlays for foreign economic assistance have averaged 1.2 percent of total federal budgetary outlays. The foreign economic assistance share of the federal budget declined from 1.3 percent in 1970 to 0.9 percent in 1973; however, preliminary estimates indicate an increase in outlays to 1.23 percent of total outlays for 1974.

U.S.outlays to the multilateral development banks have averaged 0.13 percent of total U.S. budgetary outlays over the period 1970-74. In 1970, U.S. outlays to the multilateral development banks represented 0.1 percent of total federal outlays, while in 1974 these outlays increased to 0.17 percent of total federal outlays.

Q **In light of the energy crisis, why should the U.S. participate in the development banks when the money could just end up in the oil-producers' hands?**

A The international development banks primarily provide resources for specific projects, not general funds which could go toward paying increased oil prices. These international lending institutions provide long-range development assistance.

It is hoped that the oil-exporting nations will provide assistance in funding the monetary distortions caused by the sharp rise in oil prices. A number of commitments have already been made by certain oil-producing nations to cope with the problem. Also, special development funds are being formed and subscribed to by oil-exporting countries. In addition, the international development banks are actively seeking funds from the oil-rich nations as a method of recycling these monies to the developing world.

Q **Since major requests are being made to Congress for multilateral assistance, shouldn't the United States eliminate the program of bilateral aid?**

A It is important that both bilateral and multilateral aid programs be continued. Bilateral assistance plays an essential role. It permits us to develop innovative new programs to spur development, to implement programs of particular interest to U.S. foreign policy, to maintain adequate aid flows, and to provide an effective vehicle for direct U.S. private sector involvement in the development process. This flexibility is a necessary component of our overall foreign assistance effort.

Our contributions to the multilateral lending institutions are also important. The international development banks help encourage developing countries to participate in a joint effort to raise their living standards. They provide technical expertise, and encourage other industrialized countries to take a larger responsibility for the future of the developing world.

Q **Have the agreements reached with other donor countries committed Congress in any way to provide resources for the multilateral banks?**

A No. We have made it clear in our negotiations and agreements that no U.S. Government commitment has been made, or could be made, before approval by Congress. Only after Congress has acted will the U.S. Government enter into a commitment to provide its share of the proposed resources.

Q **Does this type of lending permit the developing countries to forego their own investment efforts?**

A The international lending agencies require developing nations to establish their own sound performance standards, solid programs and reasonable development priorities.

Self-help is an important consideration in the efforts made by the international lending agencies to insure that recipient countries maintain economic discipine and follow generally acceptable development policies. The facts show that these countries put up the major part of the investment in their own development. This investment comes from both the public and private sectors.

Q **Do the international development banks really focus on the problems of the poor in the developing countries?**

A Yes, but not all projects have the same immediate or direct effects on increasing incomes and employment. For example, a road which reduces transportation costs will have different effects than a project to place water taps in rural homes. In response to the concern of the United States, the banks have approved an increasing number of projects focusing on the poor or on the improvement of their opportunities, such as projects in agriculture, education, population, urbanization, water supply and sewerage.

Q **How does U.S. participation in the international development banks affect its economy?**

A The aggregate effect of U.S. participation in the international development banks has been positive on the U.S. economy. This is illustrated by the balance of payments figures. Through 1973, as a result of participation in these activities, the balance of payments impact on the U.S. registered a surplus of $2.7 billion. The calculation includes U.S. contributions to the banks, and payments by the banks to the U.S. in interest on borrowed funds, procurement, administrative expenses, and investments in the U.S.

Q **Do the international development banks generate business for United States firms?**

A Yes. The lending operations of the banks provide a significant source of export business for American firms. These contract opportunities are subject to standard rules of international competitive bidding and are designed to ensure that all firms in member countries enjoy fair and equal access to these contracts. Historically, U.S. firms have won about 30 percent of the contracts under the banks' operations.

Procurement procedures are detailed in the booklet, "Export Opportunities for American Business through the International Development Banks," available from the Office of the Assistant Secretary for International Affairs, Department of the Treasury, Washington, D. C. 20220.

Q **Do the international development banks foster a good climate for U.S. direct investment in less-developed countries?**

A The international development banks benefit U.S. investment in less-developed countries. They promote efficient economies, fair treatment of foreign investment and international financial responsibility among their member governments. Should these countries falter in those responsibilities, the development banks have a good record of encouraging corrective measures. International development bank loans for port facilities, electric power, roads and education benefit the vast majority of American companies doing business overseas.

Through 1973, American companies had invested a total of $27.9 billion in the lesser-developed countries. In 1973 alone, $6.5 billion in earnings were made on the total investment, of which slightly under $5 billion was remitted to the United States.

Q **What is the policy of the United States toward expropriation?**

A The U.S. Government made its views explicit in the President's expropriation statement of January 1972. The statement made clear that when a country expropriates a significant U.S. interest without making reasonable provision for compensation, we will presume that the U.S. will not extend new bilateral economic benefits to the expropriating country. If the President determines that the country is taking reasonable steps to provide adequate compensation or that there are major factors affecting U.S. interests which require continuance of all or part of these benefits, then the restrictions would no longer apply.

This policy also applies to multilateral institutions and in the face of such expropriations, we will presume that the United States will withhold its support from loans under consideration in these institutions.

Q **Is it true that multilateral institutions finance tourism projects?**

A Yes. Many developing countries have nice beaches and plentiful sunshine—natural resources which, if properly utilized, attract tourists. Tourism projects in poor countries may be among their best potential for growth. Tourism attracts foreign exchange, and creates a considerable number of jobs. It also generates income in other productive and service sectors, which allows the country to generate foreign exchange and become more self-sufficient. Tourism projects are not a major part of multilateral lending, but in certain cases make real sense.

Q **Do international development lending institutions make loans to dictatorships?**

A These institutions take economic, not internal political factors, as the major criteria for evaluating loan requests. Thus, member countries of all political persuasions receive loans. It is to the benefit of the general population of member countries that development loans are aimed. The underlying point is that in the long run economic development will reduce the conditions that lead to despotism.

Q **How does the U.S. Government appraise international development bank loan proposals, and review project implementation?**

A A U.S. Government inter-agency body, the National Advisory Council on International Monetary and Financial Policies (NAC), reviews each international development bank loan proposal in terms of three major concerns: first, the loan must not conflict with existing U.S. laws or policies (e.g., on debt arrearages to the U.S. Government or uncompensated expropriation, if any, of U.S. firms); second, the project must have a strong economic and, if appropriate, financial justification; and third, the recipient country must be doing as much as can be reasonably expected to finance and facilitate its own economic growth and development.

Treasury's monitoring system for review of projects has been expanded. Additional reporting requirements have been given to U.S. embassies and AID missions overseas to report on the progress of projects. Treasury officials have also increased their on-site project visits to observe first hand whether projects are being implemented in the most efficient manner. Moreover, at U.S. Government urging, the World Bank and the Asian Development Bank are including in new loan proposals a review of loans currently being implemented, as well as an assessment of the problems being encountered.

Q **Don't these institutions often lend to countries that are in debt arrears to the United States?**

A The international development lending institutions do not ordinarily lend to countries that have weakened their credit standing by falling into serious debt arrears—nor does the U.S. support loans to such countries. The only grounds for exception to these general rules are a compelling need for humanitarian assistance or clear evidence that arrangements have been made to renegotiate or otherwise clear up the accounts in question.

Q **What has been the institutions' experience with repayments?**

A The IBRD, IDA and ADB have had no defaulted loans; however, the IDB in its early years made unguaranteed loans to private enterprises, prior to the Bank's policy of requiring government guarantees on all loans. The defaulted loans totalled only $11.2 million out of $6 billion loaned. Most of the defaulted amount is being recovered.

Q **How much have the international development banks borrowed in U.S. capital markets?**

A Since their creation, the international development banks have borrowed a total of over $4 billion in U.S. capital markets. Comparing this with all borrowings made by these banks, a little over $13 billion, roughly one-third of the borrowings have come from U.S. capital markets.

Q **Are South Vietnam, Laos and Cambodia eligible borrowers?**

A Yes. Cambodia, Laos and South Vietnam are members of both IDA, and the Asian Development Bank, and as such, they are eligible for assistance in accordance with normal procedures. Laos is also a member of the IBRD. For their part, both the World Bank (IDA's parent institution) and the Asian Development Bank have expressed interest in helping to finance post-war reconstruction in the three countries. The ADB has financed development projects in Indochina: six projects totalling $24.2 million in South Vietnam, one project for $1.7 million in Cambodia and four projects in Laos totalling $11.7 million.

Part II: Facts Sheets

African Development Bank (AFDB)

I. African Development Bank

Origin: Establishel on September 10, 1964

Headquarters: Abidjan, Ivory Coast

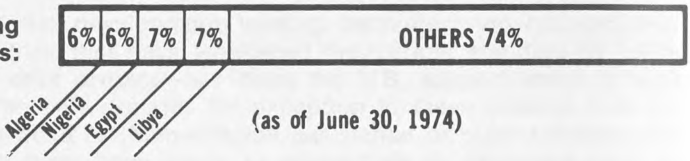
Membership: (39 members) Algeria, Botswana, Burundi, Cameroon, Central African Republic, Chad, Congo, Dahomey, Egypt, Ethiopia, Gabon, Gambia, Ghana, Guinea, Ivory Coast, Kenya, Lesotho, Liberia, Libya, Malawi, Mali, Mauritania, Mauritius, Morocco, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Somalia, Sudan, Swaziland, Tanzania, Togo, Tunisia, Uganda, Upper Volta, Zaire, and Zambia. (U.S. not a member)

Staff: Total staff of 245 from 27 countries as of December 1973. No U.S. nationals.

Terms: AFDB terms vary, with maturities ranging from 15-30 years and an average interest rate of 6 percent, plus a 1 percent service charge.

Resources: Total $384.5 million (50% paid-in, 50% callable) as of June 30, 1974

Voting Powers:

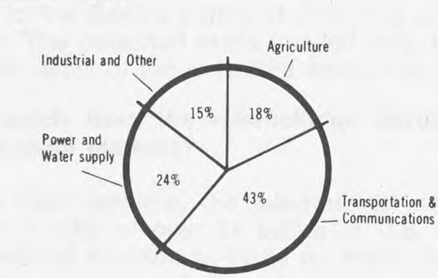


(as of June 30, 1974)

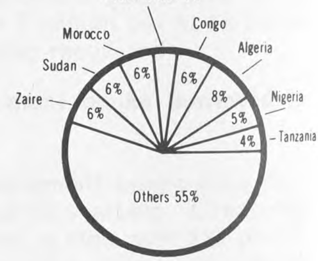
Loans: Cumulative as of May 31, 1974 (millions of current U.S. dollars)

Outstanding (including undisbursed)	$160.9
Repayments	$ .9

By Economic Sector:



By Country:



II. African Development Fund

Origin: Established June 1973

Headquarters: Abidjan, Ivory Coast

Membership: The African Development Bank, plus Belgium, Brazil, Canada, Denmark, Federal Republic of Germany, Finland, Japan, Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom, Yugoslavia.

Staff: Same as the Bank.

Terms: Loans have a ¾ percent service charge, with 50 year maturity including 10 years grace.

Resources:
- Total $94.7 million as of Sept. 13, 1974
- Breakdown (in millions of current U.S. dollars):

Source		Total
Bank earnings		$ 5.5
Non-regional members		89.2
Canada	$16.5	
Germany	16.4	
Japan	16.5	
Others	39.8	

Asian Development Bank (ADB)

Origin: Established on December 19, 1966

Headquarters: Manila, Philippines

Staff: Total professional staff is 234 of which 23 are U.S. nationals.

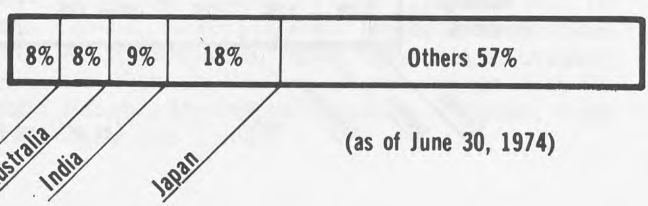
Membership: (41 members) Afghanistan, Australia, Bangladesh, British Solomon Islands Protectorate, Burma, Republic of China, Fiji, Hong Kong, India, Indonesia, Japan, Khmer Republic, Republic of Korea, Laos, Malaysia, Nepal, New Zealand, Pakistan, Papua New Guinea, Philippines, Singapore, Sri Lanka, Thailand, Tonga, Republic of Vietnam, Western Samoa, Gilbert and Ellis Islands, Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Italy, Netherlands, Norway, Sweden, Switzerland, United Kingdom and United States.

Terms: Ordinary capital lending is at an 8¼ percent interest rate for maturities averaging about 20 years. On June 28, 1974, the Asian Development Fund (ADF) came into effect as the concessional loan affiliate of the ADB. These loans are made at interest rates of 1 percent, for maturities averaging 40 years, including 10 years grace.

Resources: As of June 30, 1974 (millions of current U.S. dollars)

	Total	U.S.
Paid-in	$ 799.8	$120.6
Callable (Developed countries only)	1,098.9	120.6
Special Funds/ADF	396.4	50.0

Voting Powers:

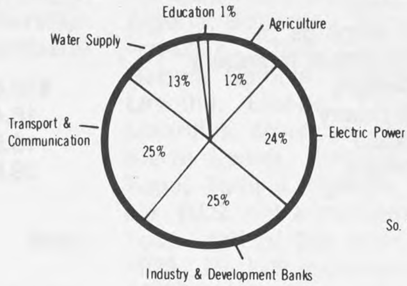


(as of June 30, 1974)

Loans: Cumulative as of June 30, 1974 (millions of current U.S. dollars)

	Outstanding Including Undisbursed	Repayments
Ordinary Capital	$1,127.3	$15.4
Special Funds/ADF	329.0	—

By Economic Sector:



By Country:

Inter-American Development Bank (IDB)

Origin: Established on December 30, 1959

Headquarters: Washington, D. C.

Membership: (24 members) Argentina, Barbados, Bolivia, Brazil, Canada, Chile, Columbia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, United States, Uruguay, and Venezuela.

Staff: Total staff numbers approximately 1,321 as of December 31, 1973, representing 25 countries, with 240 U.S. nationals.

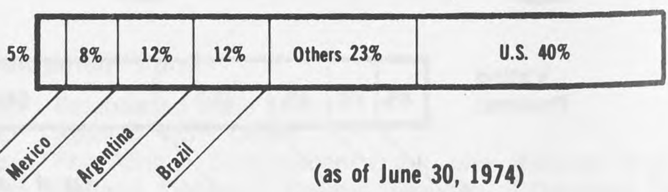
Terms: Ordinary capital lending is at an 8 percent interest rate for maturities ranging from 15 to 20 years. Fund for Special Operations (FSO) loans are at 1 percent to 4 percent, for 20 to 30 year terms.

Resources: As of June 30, 1974 (millions of current U.S. dollars)

	Total	U.S.
Paid-in	$ 972.4	$ 361.9
Callable	*	*
FSO	4.393.6	3,040.3

* The IDB has issued bonds (net) totaling $1,310 million against the U.S. callable capital which amounts to $2,047.2 million (currently representing a ceiling on bond issuances.) Callable capital subscribed by other members amounts to $2,933.3 million.

Voting Powers:

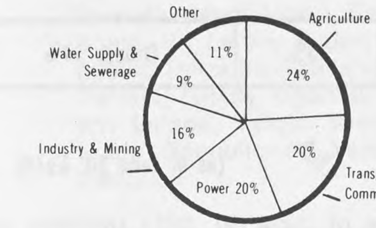


(as of June 30, 1974)

Loans: Cumulative as of June 30, 1974 (millions of current U.S. dollars)

	Outstanding Including Undisclosed	Repayments
Ordinary Capital	$2,874.0	$462.4
FSO	3,182.2	213.7

By Economic Sector:



By Country:

World Bank Group
International Bank for Reconstruction and Development (IBRD)

Origin: Established on December 27, 1945

Headquarters: Washington, D. C.

Staff: World Bank Group staff as of June 30, 1974, totaled 3,826 from 96 countries of which 25 percent were U.S. nationals.

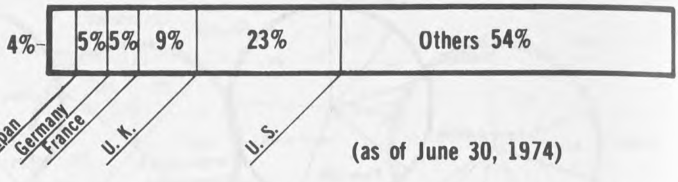
Membership: (125 members) As of June 30, 1974: Afghanistan, Algeria, Argentina, Australia, Austria, Bahamas, Bahrain, Bangladesh, Belgium, Bolivia, Botswana, Brazil, Burma, Burundi, Cameroon, Canada, Central African Republic, Chad, Chile, China, Colombia, People's Republic of Congo, Costa Rica, Cyprus, Dahomey, Denmark, Dominican Republic, Ecuador, Egypt, El Salvador, Equatorial Guinea, Ethiopia, Fiji, Finland, France, Gabon, The Gambia, Federal Republic of Germany, Ghana, Greece, Guatemala, Guinea, Guyana, Haiti, Honduras, Iceland, India, Indonesia, Iran, Iraq, Ireland, Israel, Italy, Ivory Coast, Jamaica, Japan, Jordan, Kenya, Khmer Republic, Korea, Kuwait, Laos, Lebanon, Lesotho, Liberia, Libyan Arab Republic, Luxembourg, Malagasy Republic, Malawi, Malaysia, Mali, Mauritania, Mauritius, Mexico, Morocco, Nepal, Netherlands, New Zealand, Nicaragua, Niger, Nigeria, Norway, Oman, Pakistan, Panama, Paraguay, Peru, Philippines, Portugal, Qatar, Romania, Rwanda, Saudi Arabia, Senegal, Sierra Leone, Singapore, Somalia, South Africa, Spain, Sri Lanka, Sudan, Swaziland, Sweden, Syrian Arab Republic, Tanzania, Thailand, Togo, Trinidad and Tobago, Tunisia, Turkey, Uganda, United Arab Emirates, United Kingdom, United States, Upper Volta, Uruguay, Venezuela, Vietnam, Western Samoa, Yemen Arab Republic, People's Democratic Republic of Yeman, Yugoslavia, Zaire and Zambia.

Terms: IBRD lends at an 8 percent interest rate for maturities averaging 20-25 years and related to the useful life of the project.

Resources: As of June 30, 1974 (millions of current U.S. dollars)

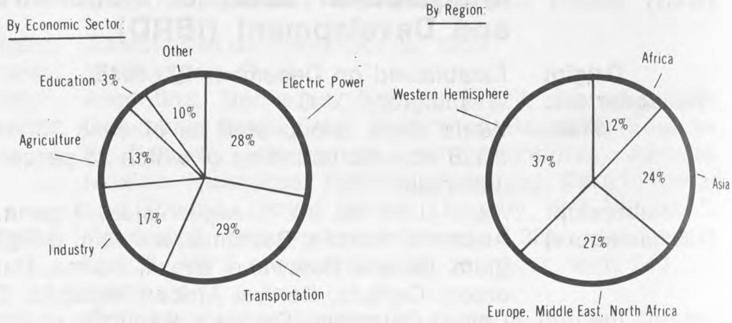
	Total	U.S.
Paid-in	$ 3,043.1	$ 780.9
Callable (Developed countries only)	19,052.2	7,027.8

Voting Powers:



Loans: Cumulative as of June 30, 1974 (millions of current U.S. dollars)

Outstanding (including undisbursed)	$23,353.9
Repayments	3,771.3



World Bank Group International Development Association (IDA)

Origin: Established on September 24, 1960 as an affiliate of the World Bank.

Headquarters: Washington, D. C.

Staff: World Bank Group staff as of June 30, 1974, totaled 3,826 from 96 countries of which 25 percent were U.S. nationals.

Membership: (113 members) As of June 30, 1974 Twenty are Part I, or developed country members, and the rest Part II, or borrowing countries. Part I members: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Iceland, Ireland, Italy, Japan, Kuwait, Luxembourg, Netherlands, Norway, South Africa, Sweden, United Kingdom and United States. Part II members: Afghanistan, Algeria, Argentina, Bangladesh, Bolivia, Botswana, Brazil, Burma, Burundi, Cameroon, Central African Republic, Chad, Chile, China, Colombia, People's Republic of Congo, Costa Rica, Cyprus, Dahomey, Dominican Republic, Ecuador, Arab Republic of Egypt, El Salvador, Equatorial

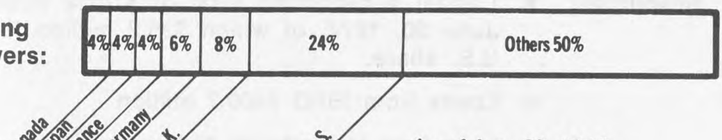
Guinea, Ethiopia, Fiji, Gabon, The Gambia, Ghana, Greece, Guatemala, Guinea, Guyana, Haiti, Honduras, India, Indonesia, Iran, Iraq, Israel, Ivory Coast, Jordan, Kenya, Khmer Republic, Korea, Laos, Lebanon, Lesotho, Liberia, Libyan Arab Republic, Malagasy Republic, Malawai, Malaysia, Mali, Mauritania, Mauritius, Mexico, Morocco, Nepal, Nicaragua, Niger, Nigeria, Oman, Pakistan, Panama, Paraguay, Peru, Philippines, Rwanda, Saudi Arabia, Senegal, Sierra Leone, Somalia, Spain, Sri Lanka, Sudan, Swaziland, Syrian Arab Republic, Tanzania, Thailand, Togo, Trinidad and Tobago, Tunisia, Turkey, Uganda, Upper Volta, Vietnam, Western Samoa, Yemen Arab Republic, People's Democratic Republic of Yeman, Yugoslavia, Zaire, and Zambia.

Terms: Lending is on standard terms of 50 years maturity, including 10 years grace, with a service charge of ¾ percent per annum.

Resources:
- Cumulative total in current U.S. dollars is $6,563 million as of June 30, 1974, of which $2,500 million (38%) is U.S. share.*
- Contribution breakdown:

	Total	U.S. Share $	U.S. Share %
1961 Initial Subscription	$ 751	$ 320	43
1966 First Replenishment	745	312	42
1969 Second Replenishment	1,201	480	40
1972 Third Replenishment	2,409	960	40
1974 Fourth Replenishment	4,500	1,500	33⅓
Transfers from IBRD	815	–	–
Other Contributions	86	–	–
Usable Part II Subscriptions	80	–	–

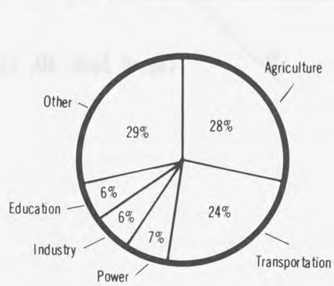
Voting Powers:



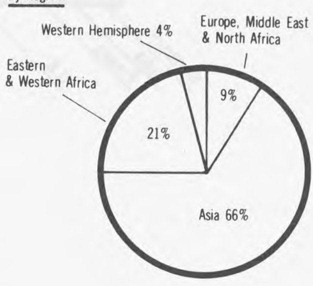
(as of June 30, 1974)

Gross Loan Commitments:
- Total $6,859 million as of June 30, 1974
- Distribution

By Economic Sector:



By Region:



* Amounts shown are those initlally subscribed to and do not include adjustments for maintenance of value.

World Bank Group
International Finance Corporation (IFC)

Origin: Established on July 24, 1956 as an affiliate of the World Bank

Headquarters: Washington, D. C.

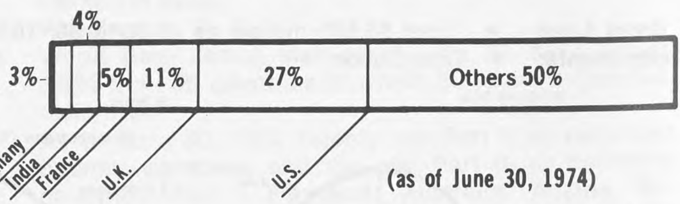
Staff: IFC staff as of June 30, 1974, totaled 203 from 38 countries.

Membership: (99 members) As of June 30, 1974 Afghanistan, Argentina, Australia, Austria, Belgium, Bolivia, Brazil, Burma, Canada, Chile, China, Colombia, Costa Rica, Cyprus, Denmark, Dominican Republic, Ecuador, Arab Republic of Egypt, El Salvador, Ethiopia, Finland, France, Gabon, Germany, Ghana, Greece, Guatemala, Guyana, Haiti, Honduras, Iceland, India, Indonesia, Iran, Iraq, Ireland, Israel, Italy, Ivory Coast, Jamaica, Japan, Jordan, Kenya, Korea, Kuwait, Lebanon, Lesotho, Liberia, Libyan Arab Republic, Luxembourg, Malagasy Republic, Malawi, Malaysia, Mauritania, Mauritius, Mexico, Morocco, Nepal, Netherlands, New Zealand, Nicaragua, Nigeria, Norway, Oman, Pakistan, Panama, Paraguay, Peru, Philippines, Portugal, Saudi Arabia, Senegal, Sierra Leone, Singapore, Somalia, South Africa, Spain, Sri Lanka, Sudan, Swaziland, Sweden, Syrian Arab Republic, Tanzania, Thailand, Togo, Trinidad and Tobago, Tunisia, Turkey, Uganda, United Kingdom, United States, Uruguay, Venezuela, Vietnam, Western Samoa, Yemen Arab Republic, Yugoslavia, Zaire and Zambia.

Terms: IFC normally makes loans and equity investments, and occasionally enters into profit participation agreements with private enterprises in developing countries. Interest rates on loans are fixed according to the circumstances of each transaction with repayments made semi-annually after an agreed grace period.

Resources:
- Capital subscription total of $107.2 million as of June 30, 1974, of which $35.2 million (33%) was U.S. share.
- Loans from IBRD $400.7 million
- Loan from Netherlands $5.0 million

Voting Powers:

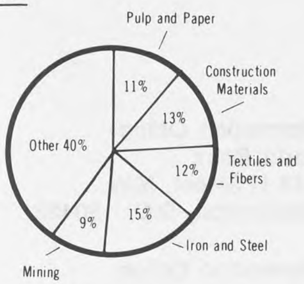


(as of June 30, 1974)

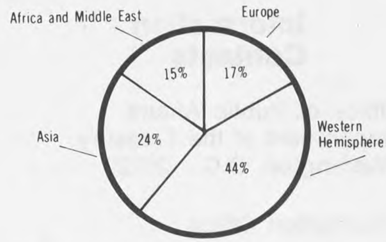
Gross Investment Commitments:

- Total $1,049 million as of June 30, 1974.
- Distribution

By Economic Sector:



By Region:



Information Contacts

Office of Public Affairs
Department of the Treasury
Washington, D.C. 20220

Information Office
Inter-American Development Bank
808 - 17th Street, N.W.
Washington, D.C. 20577

Information Office
African Development Bank
B. P. No. 1387
Abidjan, Ivory Coast

Information Office
World Bank
1818 H Street, N.W.
Washington, D.C. 20433

Information Office
Asian Development Bank
P. O. Box 789
Manila, Philippines

Foreign Projects Reference Room
U.S. Department of Commerce
Room 3411
Washington, D.C. 20230

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

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FOR IMMEDIATE RELEASE JANUARY 14, 1975

TREASURY SECRETARY SIMON NAMES C. COLEMAN MCGEHEE
SAVINGS BONDS CHAIRMAN FOR VIRGINIA

C. Coleman McGehee, Chairman of the Board and Chief Executive Officer, First and Merchants Corp., First and Merchants National Bank, Richmond, is appointed volunteer State Chairman for the Savings Bonds Program in Virginia by Secretary of the Treasury William E. Simon, effective immediately.

He will head a committee of business, banking, labor, government and media leaders who -- in cooperation with the U. S. Savings Bonds Division -- assist in promoting Bond sales in Virginia. He succeeds James W. Rawles, Director, United Virginia Bank Shares, Richmond, who has served as Chairman since December 1967. Rawles will receive the Treasury's "Award of Merit".

McGehee was born August 11, 1924, in Franklin, Va., and grew up in Hopewell, Va. From 1941 to 1943, he attended Virginia Polytechnic Institute. In 1943, he left VPI to join the Army and saw action in the European Theater. When the war ended he remained in the Virginia National Guard, from which he has since retired as a major.

After the war, he resumed his education at the University of Virginia, from which he was graduated in 1947 with a BS degree in Commerce. He has since attended the Graduate School of Banking, Rutgers University, 1958, and the Advanced Management Program at Harvard University, 1970.

McGehee joined First and Merchants National Bank in 1948. He was elected Trust Officer in 1956; Vice President in 1959; Senior Vice President in 1966, and President in 1969. Also in 1969, he was elected President and Chief Ad-

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ministrative Officer of the parent First and Merchants Corp. He assumed his present posts on January 1, 1974.

He is active in many business, civic and educational activities, including -- Executive Committee, Central Richmond Association; Virginia Industrial Development Corp.; Richmond Chamber of Commerce; Chairman, Finance Committee, Virginia Commonwealth University; Trustee, Virginia Foundation for Independent Colleges. In 1957, McGehee was the recipient of the Virginia Junior Chamber of Commerce's "Young Man of the Year" award.

McGehee and his wife, the former Caroline Yarnall Casey, have three children -- C. Coleman, Jr., 22; Stephen Yarnall, 19; Margaret Fox Verner, 16.

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

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FOR IMMEDIATE RELEASE January 14, 1975

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 January 23, 1975, as follows:

91-day bills (to maturity date) in the amount of $2,600,000,000, or thereabouts, representing an additional amount of bills dated October 24, 1974, and to mature April 24, 1975 (CUSIP No. 912793 WF9), originally issued in the amount of $2,002,540,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,200,000,000, or thereabouts, to be dated January 23, 1975, and to mature July 24, 1975 (CUSIP No. 912793 XF8).

The bills will be issued for cash and in exchange for Treasury bills maturing January 23, 1975, outstanding in the amount of $4,603,965,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,697,050,000. 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, Monday, January 20, 1975. 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 January 23, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 23, 1975. 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

FOR RELEASE UPON DELIVERY

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REMARKS OF THE HONORABLE GERALD L. PARSKY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE INVESTMENT ASSOCIATION OF NEW YORK
AT THE BANKERS CLUB, NEW YORK, NEW YORK
12:00 NOON, JANUARY 14, 1975

Recycling of Oil Revenues and the Role of U.S. Capital Markets

I am delighted to have the opportunity to be here today to discuss aspects of "recycling," and in particular, the role of private investors and private financial institutions with respect to the funds which the oil producing countries will have available for placement outside their own economies. Any such discussion must also consider the potential effect such funds may have on our capital markets. In doing so, it is important to realize that at the heart of all of these issues lies the price level of oil. As all of you know, since October 1973, we have experienced a sudden rise in world oil prices -- in fact a five-fold increase from less than $2.00 per barrel to over $10.00 per barrel -- the consequences of which are far reaching. Some have said that the world now faces unavoidable financial disaster.

I don't agree. I do believe we are confronted with a major challenge. We have been used to an abundance of cheap energy, and the easy availability lulled us into letting our dependence on foreign supplies increase to a point where a group of oil producing countries can control the price. That is really the crux of our problem -- we have lost the ability to allow the market for oil to operate freely. Now, we must face the fact that cheap energy is no longer available. $10 or $11 oil is with us, and I believe if you consider just the economics of the situation, there is no way that the forces of supply and demand will be able to force the price to decline for at least three years. I say this principally because sufficient non-OPEC supply will not be available before then. Further, if we do not take the necessary actions now to insure that supplies of energy will be developed in this country, the price will not have to be reduced after three years -- and might go higher. The immediate costs imposed on the economies of the world by this situation are severe, but I am confident that our financial system will respond; and the response will come from a combination of official facilities and private markets. Recently, there has been much publicity given to the official side -- to an expanded IMF oil facility, to our "safety net" proposal for OECD countries and to various other mechanisms. We must recognize, however, that any of the facilities are really supplemental to our private capital markets. Further, we must not lose site of the interrelationship between our approach on the financial side and the price of oil. As such, we must not adopt a financing arrangement that perpetuates higher oil prices.

Summary of Capital Flows to OPEC

Before discussing how we should seek to balance the official mechanisms and our private capital markets in the recycling process, I think it's important to review the current magnitudes of the capital flows themselves. We estimate that the thirteen oil exporting nations that are members of OPEC will receive about $90 billion in 1974 from their exports of oil -- about four times the amount they received the year before -- and about $5 billion from other exports. They appear to have spent about one-third of this income, or $30 billion, on imports. Funds they did not spend on goods and services they invested abroad or donated as grant aid. Since actual flows of grant aid by the OPEC nations in 1974 seems to have been quite small, we estimate that these countries will have had about $60 billion of funds available for investment in the rest of the world during the year.

It is impossible to be very precise in tracing these investments flows. However, our preliminary estimates covering 1974 based on data from a number of sources trace about $11 billion directly to the United States, about $8 billion to England in sterling assets, about $5 billion in direct official or quasi official borrowing by other industrial countries, over $2 billion to the developing countries, and about $3-1/2 billion to international financial institutions. Probably at least $21 billion was deposited with banks in the Eurocurrency market. Additional funds, not included in these figures, have been directed to investment management accounts in Europe, private sector loans, and purchases of real estate and corporate securities in Europe and Japan.

It should be recognized these data are estimates of where the oil producers have placed these funds. Banks and other financial institutions, of course, subsequently relend these funds nationally and internationally; and the continued identity of a dollar as a "petro dollar" becomes impossible -- and also meaningless.

Of the estimated $11 billion that was directly invested in the United States last year, about one-half was placed in marketable government and agency securities. We estimate less than a billion was placed in U.S. real estate and private securities; the rest is in bank deposits and short-term money market instruments. Thus, we are receiving significantly less than a fifth of total OPEC investments, and we have no evidence that this percentage is increasing. In fact, in recent months our share has declined.

While we received about $11 billion from the oil producers last year, we have paid, during that same period, an extra $18 billion for crude oil and refined products due to the increased prices. And of the total amount of funds that came in during 1974, our banking system lent a good portion or it back to other oil consuming countries. Thus it appears that an excessive portion of the producers' funds has not flowed to the U.S. and remained here.

Recycling

With this background in mind, let's turn to the process of recycling itself. First of all, it's important to understand what we mean by recycling. When I use the term, I mean the overall response to the fact that a substantial portion of the wealth of the oil consuming nations of the world is flowing to the oil producing states to pay for oil. Recycling really involves two functions: (1) providing that the consuming nations as a group get much of this wealth back through grants, loans, and other forms of investment and payments for goods and services; and (2) distributing the "recycled" wealth among the consuming nations, including avoiding potential "bankruptcies" among nations unable directly to attract such flows. Thus, in one sense recycling refers simply to the process by which the oil producers' investible funds are moved into final investments either directly or through the intermediary of banks and institutions often located in a different country from the final destination of the investments. In the other narrower sense, it refers to a process by which governments of stronger industrialized countries might intervene to insure that the funds are lent to selected countries on terms less onerous than those on which the funds would otherwise be available, if at all, to those borrowing countries.

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In this latter sense recycling could be undertaken by the U.S. Government either

(a) directly, by borrowing oil funds either on the market or directly from an oil producer and then re-lending the funds on favorable terms to another country, or

(b) indirectly, by placing some form of U.S. repayment guarantee on borrowings by a foreign country of oil funds lent either directly or through an intermediary such as the International Monetary Fund

In developing the proper balance among these approaches, we recognize that countries differ as to the amounts of debt they are confortable with and how much of their oil imports they are able or willing to pay for in current exports of goods and services. There is a danger that increasing reluctance to borrow, or decreasing credit-worthiness, or both, will lead some countries to seek lower levels of economic activity in order to preserve their financial positions -- and the world will lose heavily in foregone production. There is also the 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.

Bearing this in mind, we have proposed a comprehensive approach to multilateral financing which would supplement the private capital markets' role in recycling. It consists of several parts: use of the IMF, a special trust fund managed by the IMF, and a fund for industrialized countries.

The IMF would be the first line of official multilateral financing for the full range of its membership. The developed nations and the middle range of the developing nations that have demonstrated credit-worthiness will participate in this expanded use of IMF resources, as well as borrowing in the world's capital markets. However, the poorest developing countries cannot afford to assume a greater debt burden except on very liberal terms. We have, therefore, suggested the creation of a Trust Fund, managed by the IMF, which would channel funds to the most seriously affected nations on concessional terms not appropriate for other borrowers. We would hope that the OPEC countries would provide a substantial part of the concessional contributions to the Trust Fund.

Our proposals for a financial solidarity fund among the industrialized countries is the third component of our multilateral financing proposals. This Fund would be a financial safety-net, consisting of stand-by arrangments among the major industrialized countries to provide financial support in case any participating country finds itself in economic trouble after having made reasonable efforts on

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its own part to resolve its difficulties. I stress the insurance aspect of this safety-net. Our belief is that the existence of the safety-net will help assure the continued openness of the national and international capital markets, and so, minimize the amount of official recycling that will actually be carried out.

Inherent in these proposals for official recycling is the belief that the private capital markets will still be central and the key to stimulating productive investments; investments that are needed to facilitate the future transfer of goods and services implied in the current build up of OPEC financial assets. Official recycling must not be a substitute for private investment, for in the final analysis, this is really what recycling is all about.

During the past year, the international banking system was the focus of receiving and lending surplus oil revenues. For example, the net size of the Eurocurrency market (that is, after deducting deposits of one bank in another) grew by about \$35 billion between the end of 1973 and July 1974. This is an extraordinary growth, even for the Eurocurrency market. During the first half of 1974, total deposits in the top five U.S. banks increased by about 20 percent, and the bulk of this growth occurred in the second quarter.

Direct loans by the OPEC countries to consumer governments and purchases of government securities also played an important role in recycling last year, and I expect they will play a more important role this year. With respect to the U.S., as I noted earlier, about half of the direct placement of OPEC funds in our country was in marketable government and agency securities. Such transactions surely have implications for our private capital markets for they reduce the amount of funds the government must raise from domestic sources.

While the international banking system will continue to handle a good deal of the recycling requirements in 1975 as they did last year, direct loans to governments and purchases of government securities will become increasingly attractive alternatives to the producers; and other sectors of our private capital markets will also play a more important role in the direct placement of producer funds. Real estate investments have been made in the U.S. and to a greater extent in Europe and this will continue to be an important vehicle. Further, equity investments, both direct and portfolio, will play an increasing role as the OPEC countries develop their investment portfolio and management capabilities. In determining the extent to which there will be a move into the equity area, we must distinguish among the OPEC countries.

A number of the producers regard their investment horizons as long term. That is, a portion, and probably a growing portion of their investments are thought of as long-term commitments and will not be turned over quickly. This will be particularly true for Kuwait, the Gulf States, and Saudi Arabia which have low absorptive capacities and substantial oil reserves. They can foresee a future of accumulating far more in revenues than they can hope to put to use domestically. For a country like Kuwait, oil in the ground at some point will become but one part of a much larger asset portfolio. The Kuwaitis are very sophisticated and understand investment very well. They want to invest in the most productive vehicles and, in making their decisions, they can be expected to seek to acquire assets that are at least no less valuable, in their view, than oil in the ground. This should lead to a greater emphasis on equity investments.

Iran, while able to employ all of its revenues domestically in the relatively near future if it so wishes, has also evidenced a desire for equity investments in the industrialized countries. It sees important possibilities for investments in companies that are in position to help Iran expand its domestic industrial base. Similar considerations are likely to enter into future investments by Saudi Arabia.

Such diversification of OPEC capital will add an important ingredient to the recycling process. Further, it should make an important contribution towards our meeting the capital requirements of American business in the coming years, and to the need to increase capital formation. Some have argued that the initial placement of OPEC funds will have no significant effect on the ultimate level of capital formation in the corporate sector.

Whether or not there is an increase in savings and capital formation on a worldwide basis, there still can be important shifts in which sectors capital formation occurs. An inflow of OPEC funds into the equity market would not mean that supply of funds to that market will increase by the full amount. However, the investments by oil producers could induce additional domestic purchases by improving the business climate and, in particular, providing an uplift to the depressed equity markets.

In summary, I think that increased oil producer investments in our private sector would facilitate needed capital formation in that sector despite the offsetting market adjustments that surely would occur. These potential investments should not be regarded as the major solution to our domestic capital market problems, for our major solution must be to get inflation under control and to make needed reforms in the structure and regulation of these markets. But these investments can make a contribution to our capital formation as well as facilitate a desirable lengthening in the maturity of the producers' asset portfolios.

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With consumers, we must seek greater financial solidarity and a common effort to reduce our dependence on others for our energy resources. With producers, we must resolve our differences through mutual understanding and cooperation. As such, we must recognize and support the legitimate aspirations of the producing countries to accelerate their own development, establish their industrial and agricultural bases, and to improve the living standards of their people. The producers in turn must realize the important stake they have in a healthy world economic system. I believe they will. In my recent conversations with officials in the Middle East, I found a widespread understanding of the responsibilities inherent in their new international role, and I am confident that a basis can be found for the industrial nations of the world to work constructively with the OPEC nations. Maybe I'm too much of an optimist; but we really have no other choice. We are too far down the road to interdependence to turn back. Either we will succeed by expanding trade and investment among all nations or we will fail by sinking into a world of small isolated fragments. I have no doubt what our response must be.

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Estimated Current Account Balances of OPEC Countries
($ billion)

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		1974
Exports		
Oil	90	
Other	5	95
Imports		
(goods and services)		-35
Surplus		60

NOTE: Some estimates of oil receipts are slightly higher and estimates of imports slightly lower.

Preliminary Estimate of
Percent Distribution of
Cumulative OPEC Investments,
January through December, 1974

	Percent of Total
In the United States	18 1/2
In Euro-banking market	35
Sterling Assets in United Kingdom	13 1/2
All Other	33
Total	100

Treasury Department
January 14, 1975

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

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January 15, 1975

POLICY STATEMENT OF THE UNITED STATES
ON DEVELOPMENT BANK LENDING TO OIL PRODUCING COUNTRIES

We are able to support this borrowing, viewed as a separate and independent operation, subject to the questions and concerns which we raised last week. Since, however, the borrowing is in fact integrally connected with the five loans to be presented later today, I would like to take this opportunity to set forth, in a formal way, the United States Government policy on development bank lending to oil producing and exporting countries.

The increase in the price of oil has greatly increased the incomes and foreign exchange earnings of oil exporting countries. At the same time the increase in oil prices, and in prices of other products associated with energy, has created serious economic problems for many developing countries.

We believe the development banks of which we are a member, the World Bank, the Inter-American Bank and the Asian Development Bank, should adjust their programs appropriately to this new situation. In our view, there is no justification at this time for soft loans to any oil exporting country. Financial support through ordinary capital loans should be very strictly limited in total amount, and should be restricted to only those among the poorest of the oil exporting nations who have pressing foreign exchange requirements for development projects.

We have not come to this conclusion because of any desire to hinder the development efforts of oil exporting nations; on the contrary, we support such efforts. However, the basic purpose of the World Bank today is to assist developing countries in need of financial support. It is for this reason that the United States Government, along with other members of the Bank, guarantees the obligations of the Bank and enables it to raise money economically in the world's capital markets.

We recognize that some oil exporting countries may wish to have the benefit of continued technical and management assistance from the Bank in their development program and projects even though they have no pressing need for Bank financial support. Limited assistance to meet this desire could appropriately be made available through a number of alternative procedures, provided the Bank's ability to support other countries with financial requirements is not restricted whether through the encumbrance of Bank capital or the diversion of scarce Bank management and technical services, and provided that the full costs of such assistance are charged.

In light of these considerations, offset loans from oil exporting nations, of the type that have been apparently arranged in connection with five loans we are discussing today, do not appear to us to provide an adequate resolution of the problem. Moreover, we do not believe it desirable for the Bank, in effect, to provide special incentives to invest in its securities to one class of lender.

We would welcome increased participation in the established development Banks by the major surplus countries through the purchase of additional shares in their ordinary capital provided such share purchases are accompanied by commensurate increased contributions to the concessional funding mechanisms. The greatest and most urgent need of the poorer developing countries is for increased assistance on the low interest, long-term basis provided by these institutions from their special funds.

We believe it would be appropriate for the oil exporting countries with substantial surpluses available for international investment to provide additional concessional assistance to the poorer developing countries through contributions to the development banks' soft loan funds such as the International Development Association. It would also be appropriate for the major oil exporting countries to repay promptly their outstanding loans from the development banks so that these resources could be used for additional loans to the poorer developing countries.

We welcome the decision by Bank management to have a full review of the policies and practices of the Bank with respect to its relations with oil exporting nations as part of the board review of financial policies on January 21. We recognize that the loans which will be before us for consideration later today have been carefully prepared and negotiated between the Bank and the Government of Nigeria. Since our views on the general policy questions involved, although previously expressed informally, have not been previously presented to this board in a formal policy statement, we would not wish to interfere with the decisions that are made today by the Bank and other members of the board. In view of these considerations, and pending the outcome of broader discussions on the general policy guidelines involved, we wish to request at this time to be recorded as abstaining on the loans when they are presented.

December 17, 1974

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

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FOR IMMEDIATE RELEASE

REMARKS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
AT PRESS BRIEFING
ROOM 4121, TREASURY DEPARTMENT
9:30 A.M., JANUARY 16, 1975

We called this briefing with Fred Hickman and Ed Fiedler this morning to give you a chance to ask any additional questions about the President's State of the Union proposals -- particularly those relating to changes in the tax structure. I thought I might also take this occasion to make a few brief remarks about reaction to the program before attending another IMF meeting. As you know, I have been deeply involved with the IMF ministers all week and have not yet had an opportunity to speak to the press, but it is important to set the record straight on a couple of issues.

First of all, you should understand that the process of drawing up the economic and energy proposals was one of the most difficult exercises that this Administration has undertaken. It was especially painful for President Ford because he, like the other members of his economic team, is a firm believer in fiscal discipline and in the free marketplace. Yet, as leader of all of the people, he knew that millions of Americans were suffering and that circumstances of the economy required a change. It is a measure of his strong capacity as a leader that he had both the wisdom and the courage to chart a new direction for the country. It is also reassuring to know that when we pull out of this recession, as we will, a man of his philosophy will be at the helm, for he fully understands what needs to be done to rebuild the foundations of our economy. I want all of you to know this morning that the full Administration is united behind the President, and I believe that the country will unite behind him too.

Three weeks ago we were hearing from some critics that the President was fighting inflation at the cost of unemployment and recession. Now we are hearing that he is fighting unemployment and recession at the expense of inflation. Both views are off the mark. The President is trying to fight both inflation and recession at the same time, because they are both part of the same disease.

There has been a change, but it has been a change in emphasis -- we are significantly stepping up the battle against the recession because the economy is sliding downhill more rapidly than anyone expected. But we are certainly not abandoning the long-range fight against inflation.

As you were told in briefings yesterday, we do expect some slight increase in inflation if all of the President's programs are enacted -- about two percentage points on the CPI. While the costs of our action are higher than we would like, the costs of inaction -- in terms of unemployment, hardship, and loss of hope for millions of Americans -- would be much higher indeed.

These programs are bold, but they are not reckless. They are the right medicine at the right time for the right reasons.

In lifting the country out of the doldrums, the President has been extremely careful to avoid actions which would set off another inflationary spiral. That's why we have placed heavy emphasis upon limiting the tax cut to one year and putting a tough ceiling on new spending programs. Both of these actions are imperative in order to keep a lid on prices.

I said a week ago that the President's program would be "tough, comprehensive and effective." That's precisely what it is, and if we give it a chance, I think we will see the economy begin its recovery much earlier in 1975.

Thank you.

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

FOR IMMEDIATE RELEASE 353 January 16, 1975

TREASURY ANNOUNCES TENTATIVE REVOCATION
OF DUMPING FINDING ON
POTASSIUM CHLORIDE FROM WEST GERMANY

Assistant Secretary of the Treasury David R. Macdonald announced today a tentative determination to revoke a finding of dumping in the case of potassium chloride from West Germany under the Antidumping Act, 1921, as amended. Notice of this decision will appear in the Federal Register of January 17, 1975. A finding of dumping with respect to potassium chloride from West Germany was published in the Federal Register of December 19, 1969.

The Federal Register Notice of January 17, 1975, will state in part the finding that from August 1969 to date, sales by the sole West German exporter, Kali und Salz, have not been at less than fair value and that assurances have been received that future sales of potassium chloride to the United States will not be made at less than fair value.

During the period of July 1, 1973, through July 1, 1974, imports of potassium chloride from West Germany amounted to approximately 10,000 tons valued at approximately $600,000.

# # #

December 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	29503	17	.06
Series J and K-1952 thru 1957	3754	3749	5	.13
UNMATURED				
Series E 3/:				
1941	1939	1761	178	9.18
1942	8556	7755	802	9.38
1943	13757	12487	1270	9.23
1944	16073	14510	1563	9.72
1945	12663	11294	1370	10.82
1946	5784	5016	769	13.30
1947	5523	4664	860	15.57
1948	5732	4766	966	16.85
1949	5696	4660	1036	18.19
1950	5004	4042	962	19.22
1951	4329	3496	832	19.22
1952	4539	3643	895	19.72
1953	5209	4105	1104	21.19
1954	5325	4136	1189	22.33
1955	5551	4272	1279	23.04
1956	5363	4101	1262	23.53
1957	5062	3828	1234	24.38
1958	4960	3662	1298	26.17
1959	4657	3405	1251	26.86
1960	4692	3343	1348	28.73
1961	4794	3306	1488	31.04
1962	4674	3148	1527	32.67
1963	5270	3374	1896	35.98
1964	5135	3299	1836	35.75
1965	5029	3208	1821	36.21
1966	5449	3351	2098	38.50
1967	5402	3272	2130	39.43
1968	5077	3047	2030	39.98
1969	4790	2780	2010	41.96
1970	5032	2671	2362	46.94
1971	5802	2700	3102	53.46
1972	6404	2607	3797	59.29
1973	6336	2271	4065	64.16
1974	4929	985	3943	80.00
Unclassified	837	796	41	4.90
Total Series E	205372	149759	55613	27.08
Series H (1952 thru May, 1959) 3/	5485	4150	1336	24.36
H (June, 1959 thru 1974)	10021	3617	6401	63.88
Total Series H	15503	7768	7736	49.90
Total Series E and H	220875	157527	63349	28.68
All Series: Total matured	38278	38251	26	.07
All Series: Total unmatured	220875	157527	63349	28.68
All Series: Grand Total	259153	195778	63375	24.45

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.

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FOR IMMEDIATE RELEASE January 17, 1975

SIMON ANNOUNCES NEW SUBSCRIPTION
TO INTERNATIONAL GROUP

Secretary of the Treasury William E. Simon announced today at a meeting of the Joint World Bank/International Monetary Fund Development Committee the subscription by the United States to the Fourth Replenishment of the resources of the International Development Association (IDA). IDA is the World Bank agency that provides long-term loans at very low rates of interest for development of the poorest developing nations.

The United States' agreement to the replenishment arrangements, originally negotiated at the World Bank meeting in Nairobi during September 1973, will bring these arrangements formally into effect. As a result, twenty-one developed countries will provide contributions to IDA totaling $4.5 billion, of which $1.5 billion, or one-third of the total, will be provided by the United States.

The United States subscription was authorized by Congress in Public Law 93-373. This contribution is scheduled to be made in four equal annual installments of $375 million each during fiscal years 1976 through 1979. In accord with customary United States legal procedures, the U.S. contribution will be provided only after enactment of the necessary appropriations bills by the Congress.

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Department of the TREASURY NEWS
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ECONOMIC TRENDS, GOVERNMENT AND THE PRESS

Remarks by James N. Sites
Special Assistant to the Secretary
of the Treasury
Before the Annual Awards Dinner of the
New England Press Association
Boston, Massachusetts
January 17, 1975

Even for an ex-reporter it's a most unusual experience to appear before an audience of 500 editors and publishers. I will try to make my remarks as meaningful as possible even though they were born and bred in Washington which, as you know, is just about the only place on earth where sound travels faster than light.

Before getting into my talk, which, as your general manager requested, centers on the economic difficulties which polls indicate to be the foremost concern of Americans--I would like to offer personal congratulations to the winners of your journalism awards. I know from hard experience that this is deserved recognition for merit in serving both the cause of good reporting and the public interest.

I'm tempted to speak in this regard about those great concepts of freedom of the press, but I'll leave this kind of eloquence to others. From a practical point of view, I can only say thank God for that leading contribution of free reporters working in a free society--the threat of exposure. How will it look on the front page?--This must surely be one of the greatest forces for good in democracy's entire arsenal.

I would also like to take this opportunity to bring you the warmest best wishes of my boss, Treasury Secretary William E. Simon, who, I can assure you, would have liked nothing better than to have been here with you tonight. However, as you have undoubtedly concluded from the State of the Union message and other Washington developments, the President has pre-empted Bill's time and talents for other things.

But to get on with our look at the economy, I would like to focus tonight on two major points: (1) how we got into our present economic troubles and (2) how in the world do we get out.

As the President emphasized on Wednesday, there is no doubt that the economy is in serious trouble. Even so, the true nature often seems obscured by the terminology of the experts.

For instance, the more learned economists might tell you that a slowing up of the slowdown is not as good as an upturn in the down-curve. But even this is a good deal better than either a speed-up of the slowdown or a deepening of the down-curve. And it does suggest that the climate is just about right for an adjustment to the readjustment. All of which indicates that there may be a letting up of the letdown. Of course, if the slowdown should speed up, the decrease in the rate of increase should turn into an increase in the rate of decrease. In other words, the rate of deceleration would be accelerated.

Now, if all this fails to clarify the economic picture, you can understand why it is said that economists may often be wrong...but they are <u>never</u> in doubt.

Unfortunately, we have few other things to laugh about when we look at the American economy. The past year has been a grueling experience for the nation. We have been shocked by energy shortages, the explosive rise in food and fuel prices, sky-high interest rates and scarcities of mortgage credit, production cutbacks and growing unemployment.

With people increasingly concerned about both the present and future, the danger is that the nation may now be stampeded into rash action that will worsen our problems rather than improve them. It is imperative, therefore, that we take a long, cool look at the state of our economy, at trends and prospects, then choose our policy courses wisely. While the economy has a number of weak spots, we should not dismiss or overlook its vast strengths.

As the new Congress convenes and considers the President's comprehensive economic and energy programs, together with other proposals, the consensus economic outlook shapes up like this:

Production will continue to decline into the middle months of the year, with unemployment continuing to rise until that period as the labor force increases faster than the absorption capacity of the economy. On the other hand, there will be a slackening in the rate of inflation which is raising such hob with so many people. The economic recovery is then expected to get underway.

Fortunately, no authority sees the recession degenerating into anything like the 1930s. There are too many built-in stabilizers. Besides a great many structural changes in the economy, we now have federal insurance of bank deposits, strong unemployment compensation and public employment programs, and a wide range of income-maintenance systems -- social security, food stamps, etc.

Now, you've all heard the President's State of the Union address and his program to deal with our economic troubles. I won't repeat the well-reported details of his action plan, but I would like to comment briefly on a few of its key points.

First, we confront the hard fact that we have reached the end of the long, happy era of cheap and abundant energy... that powered a century of unprecedented development and prosperity. Now we must do an about-face and learn how to conserve and economize on this vital resource. There is no way this can be done easily or painlessly. The President has chosen the price and market-response mechanism to stimulate energy conservation and domestic production, allowing people to use their ingenuity to work themselves out of the jam the oil-producing nations forced upon us.

I am sure you will hear much in coming days about the alternative approach of mandatory controls on imports and mandatory allocations, and even rationing. But look at the other side of that coin--perhaps 10 dismal years of government dictation as to who gets how much, coupled with inequities, distortions, black markets and a further undermining of our basic freedoms. Do we really want that?

In terms of the broad economy, the President has moved forcefully to help the nation recover from recession, while trying to stop short of the kind of excessive stimulation that could soon return the nation to an even more virulent inflation and even worse unemployment. His program not only provides a shot in the arm for our slumping economy, but the energy tax also provides the means of repairing the damage inflation has wrought to our tax structure. It will yield needed revenues to provide better breaks for low and middle-income groups and business investment--the very wellspring of our jobs and good living standards.

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Behind the President's program is recognition of the many special factors that triggered super-inflation and got us into economic trouble in the first place--the quadrupling of prices by the oil-producing nations, serious crop setbacks during the past two years, the supply shortages and other distortions caused by our recent bout with wage-price controls, the simultaneous boom among industrialized countries that put such pressure on the world's commodities, and two devaluations of the dollar that brought increased foreign demand for U. S. goods.

But beyond these factors, which should eventually work themselves through the economy, lie some deeply embedded government policy problems that have aggravated inflationary pressures and which will have to be dealt with squarely if we are ever to solve our economic problems.

This brings me to the role of government in our quandary--a role that is probably overriding and which will have to be rationally reassessed. Perhaps a few facts will be appropriate in defining this role. For instance...

* One of every six members of the labor force now works for the government--federal, state and local. In fact, the government has become the nation's largest single employer of people.

* Just before the New Deal burst upon the American scene, government accounted for 15 percent of national output. Today, government accounts for a third of output; and if present trends continue, this could amount to over 50 percent by the year 2000.

* Underscoring government's awesome growth rate, it took 185 years for the federal budget to reach the $100 billion figure--a line it crossed just 14 years ago in 1962. Only 9 years later, the federal budget had reached the $200 billion mark and then, this current fiscal year, it will pass the $300 billion mark. Indeed, in the fiscal year starting next October 1, government will be getting painfully close to spending $1 billion each day.

Such spending totals, mammoth as they are, are not as bad as the chronic failure to make ends meet. In the past 15 years, the federal government has run deficits in 14 years--a miserable record of profligacy. These huge deficits have added enormously to aggregate demand for goods and services and have thus been directly responsible for tremendous 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. And, as President Ford indicated, this problem will get no better as the gap between revenues and expenditures widens for this year and next--to $30 billion and then $45 billion.

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The greatest danger in these huge deficits is that as government moves into credit markets and pre-empts vast sums to cover its deficits, new pressures will build up under interest rates. This will directly affect the hard-hit housing industry, which so many are counting on to lead the way to economic recovery.

This current state of affairs may well pose the ultimate dilemma for those who believe you can solve problems simply by throwing a lot of money at them--that you can remedy the problems caused by big government by still bigger government: Now dawns the realization that the more money government spends, the more severe our economic troubles could become. It's like trying to cure an alcoholic by pouring martinis down his throat. This is why the President emphasizes so strongly holding the lid on government spending. Temporary tax cuts give us a far better chance of recovery without lasting damage than big new spending programs. We feel our tax package of a reasonable $16 billion tax stimulus, plus the rebate of energy taxes, provides the proper combination.

These are the facts that only the press can bring to the public's attention in a way that counts back in Washington. I believe that the Washington decisions that will be made over the next few months on recession, unemployment, inflation and energy could decide the direction of both the American economy and America itself for as far ahead as we can see. These Washington decisions will be heavily influenced by the state of public knowledge and attitudes on economic issues; and this, in turn, will depend heavily on how well you, the press, report these vital facts to the people.

Many have cited the great need on the part of both the public and public officials for a better understanding of basic economics. Many have also said that solutions to our economic distress will not be made on solid economic grounds but rather for the sake of political expediency. I would hate to see us placidly accept this as inevitable. It does <u>not</u> have to happen like that.

Now that economic matters have moved onto page one of your newspapers and into top position on network newscasts, the press has an unparalleled opportunity to contribute to better understanding and the more rational resolution of our economic problems that this will promote. It can also thereby contribute to a comeback in consumer confidence--to that improved public psychology that is the real key to an economic resurgence.

The American prople are probably far ahead of politicians in their attitudes of what government should and should not do for them. A recent Lou Harris poll showed that ...

* By a huge 77 to 13, the public believes that "the trouble with your getting special benefits and handouts from government these days is that you'll have to pay for it four or five times over in higher taxes."

* By 79 to 16, people feel, as well, that they are not getting their money's worth in terms of government programs. (This sounds like a modern echo of Will Rogers' statement, "Thank God we get only half the government we pay for!")

* Finally, people responded 69 to 19 that "the kind of politician that promises one group of people something from government more than most other candidates ought not to be trusted."

So there is hope. It is the strength and vitality of America and the American people that will finally prove decisive in economic recovery, not the machinations of a well-intentioned but badly overblown government. America's private economic system is an ingenious, high-capacity, highly efficient machine that is the envy of the world--that has produced unparalleled plenty for Americans and other beneficiaries all over the earth. If kept in good condition and run properly, this mechanism can be counted on to continue to fulfill both the growing needs of the nation and most of our dreams. But overload, overheat and damage this wondrous machine--as we have been doing in our attempts to get too much too soon--and we're really in for trouble.

Has our explosively expanding government gotten out of control? Not yet, perhaps, but we will have to engage in some mighty efforts to make sure it doesn't. Besides sopping up your taxes and our national wealth, this bull is threatening to knock down everything in the china shop.

These dire effects of our outsized government recall what happened to a distinguished Congressman returning to Washington after last fall's election. At the airport he ran into a constituent who said: "When you return to Washington, please don't do anything more for me--I can't afford it!"

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Department of the TREASURY NEWS
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FOR RELEASE UPON DELIVERY

REMARKS BY THE HONORABLE STEPHEN S. GARDNER
DEPUTY SECRETARY OF THE TREASURY
BEFORE
THE U.S. INDUSTRIAL PAYROLL SAVINGS COMMITTEE ANNUAL MEETING
DEPARTMENT OF STATE, WASHINGTON, D. C.
THURSDAY, JANUARY 16, 1975

Mr. Chairman, Members of the Industrial Payroll Savings Committee, and honored guests:

It is a great privilege to address such a distinguished delegation in Washington. And the calibre of this group, the richness of the surroundings, the quality of your menu today are all perfect. The only problem I have is that I have on the wrong necktie. Seriously, this is the first good opportunity I have had to thank all of you for the significant contribution you are making to our Nation through the payroll savings program.

It is particularly fitting that you have gathered here on the day following the President's State of the Union address, for the thrust of our economic policies make it clear that the savings payroll program has become more important than at perhaps anytime since World War II.

The process of drawing up the economic and energy proposals was one of the most difficult exercises that this Administration has undertaken. It was especially painful for President Ford because he, like his advisers, is a firm believer in fiscal discipline and in the free marketplace. Yet, as leader of all of the people, he knew that millions of Americans were suffering and that the circumstances of the economy required a change. It is a measure of his capacity as a leader that he had both the wisdom and the strength to chart a new direction for the country. It is also reassuring to know that a man of his philosophy will be at the helm when we pull out of this recession, because he fully understands the need to rebuild the foundations of our economy. I want all of you to know this afternoon that the full Administration is united behind the President, and I hope that you will join us in this effort.

In the brief time that we have today, I would like to sum up the most important features of the President's program and then talk to you for a few moments about the payroll savings program.

First, it is obvious that the emphasis of Administration Policy has shifted much more heavily in the direction of fighting recession. The $16 billion tax cut, combined with the deficits that are projected for fiscal years 1975 and 1976, will give the economy the largest dose of stimulation since the 1940s. Even in fixed dollar terms, the money that we should be pumping into the economy will be significant by past standar

Pumping more money into the spending stream, of course, does not mean an immediate end to our economic problems. We have been saying for months that there is no quick fix or easy way out, and that still stands. What we do hope is that the tax cut will bring a recovery a little earlier in 1975 than would otherwise have been the case and that the recovery itself will be stronger and sharper. That will be particularly true if leaders in private industry such as you take advantage of the increased incentives for capital investment -- a characte istic of President's Fords programs in October and again in the State of the Union message.

Second, let me re-emphasize what the President has already made plain: our efforts to head off the recession do not mean that we have abandoned the fight against inflation. There is no question that inflation remains our most deep-seated problem and that to restore our full economic health, we must overcome the forces of inflation. That is why it is especially important that in combatting the recession, we not lose our perspective. We can be bold, but we cannot afford to be reckless.

"Living in an economy with an unstable currency," it was once said of inflation, "is like living in a society in which no one tells the truth. The ability of modern governments to keep their money strong is an essential condition of their ability to govern." We have always taken that view to heart, and that is one of many reasons that we have such great respect for the man I was quoting, Gabriel Hauge.

No one denies that the Administration's program will cause some increase in inflation. We estimate that the net impact of the energy proposals should be an addition of two percentage points to the cost of living index, but its impact should be almost entirely non-recurring. To be realistic, we must also recognize that we're going to have to pay a price for getting ourselves out of this mess. The slight increase in inflation is a necessary cost and it is probably the best bargain we can get.

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To keep inflation within bounds, the President is making essentially two proposals: first, he wants the general tax cut to be of only one-year's duration. Second, he is asking for a moratorium on all new Federal spending programs except those of paramount importance in the field of energy. The President fully appreciates the fact that a prolonged period of huge Federal deficits will not only create severe instability in our financial markets but will also cripple our hopes of curbing inflation.

This brings me to my third point -- an item of special significance here this afternoon -- which is the increase in deficit spending that we can expect. Final budget figures will not be released until February 3, but it is already clear that we will have enormous Federal deficits in fiscal years 1975 and 1976.

All of us who have watched the sweeping growth of Government borrowing within the private capital markets share a sense of concern and urgency about mushrooming Federal deficits. In fiscal year 1974, the combined borrowings by all forms of governmental activity accounted for no less than 60 percent of the net funds raised in the private capital markets in the United States. That is an alarming figure, for when the Government usurps that large a percentage of the capital funds available, the entire system is disrupted. Borrowers must seek out other sources of capital, interest rates rise, and eventually the housing market cracks. Furthermore, personal consumption declines, business investment falters, and jobs are lost. Ultimately, the system can break down because capital is no longer available. For the safety and vitality of our free enterprise system, we must halt this continuing surge of Government spending.

While the sudden slide of the economy makes it necessary to engage in further deficit spending in the short-run, over the long-run it is equally important that we restore greater discipline to our fiscal affairs. Before the 1930s, this country used to have budget surpluses four out of every five years, except for periods of war. In the last decade and a half, we have had only one surplus year and 14 years of deficit spending -- a truly miserable record. To continue these excessive spending policies would not only prolong our economic troubles, but would insure almost total Government domination of our economy. This is one of the gravest dangers now facing the United States, and the sooner we face up to it, the better.

Until we bring the explosive in Federal spending under control we have two imperatives. First, we must strenuously resist efforts to enact recession-fighting programs that will continue long after the recession is passed. One example I would cite is the pressure to create a new Reconstruction Finance Corporation. While the idea may sound appealing, let us remember that the last time around the RFC stayed in business for more than 20 years. We simply cannot afford to saddle ourselves with a host of new programs that will last long into the 1980s. The second imperative is that we must manage the Federal debt as wisely as we can, minimizing the disruptions it causes in private capital markets. And that's where all of you come in as members of the Industrial Payroll Savings Committee.

We have a special appreciation for savings bonds within the Treasury Department because they provide a firm, dependable foundation to the Government's debt structure. Let me review the numbers with you for a moment to emphasize that point.

At the end of 1974, the total Federal debt was just over \$492 and 1/2 billion. Of that total, over \$140 billion was held by Government investment accounts, such as the Social Security Trust Fund, the Civil Service Retirement Fund, the Unemployment Trust Fund and others. In addition, the Federal Reserve held just over \$80 billion which it had accumulated in the process of providing reserves to the banking system.

Left in the hands of the general public was \$271 billion in U.S. Treasury Securities. This is the debt which we seek to manage within the Treasury Department. Of this amount, more than \$63 and 3/4 billion was made up of Series E and H bonds as well as savings notes, or what we call Freedom Shares. You can see, then, that of the total Federal debt, a little more than one half is held by the general public and managed by the Treasury and of that amount, approximately one-quarter is in the form of savings bonds and savings notes.

Savings bonds and notes not only represent a sizeable chunk of the total debt held by the public, but they are also the most stable element within that debt. Unfortunately, the trend in privately held marketable debt has been in the direction of less and less stability. Since June of 1965, the average maturity of privately held marketable debt has steadily declined from 5 years, 9 months to under three years today.

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This trend is unsatisfactory in at least two respects. First, as the average maturity of the debt declines, the debt increasingly takes on the characteristics of money -- it becomes more liquid or "spendable," and when you're trying to hold down spending, that can be inflationary. Second, when the average maturity of the Government's debt is as short as it is now, the job of refinancing the debt grows considerably. Even after eliminating Treasury bills, which come due as frequently as every 90 days, it is still the case that nearly $1 of every $5 in marketable securities held by the general public reach maturity and must be refunded each year.

By contrast, we estimate on the basis of past experience that the average savings bond sold today will not be redeemed for six years -- more than twice as long as dollars obtained through marketable issues. Savings bonds simply do not turn over as rapidly as the rest of the marketable debt. About $1 in every $8 of savings bonds are cashed in each year and thus have to be replaced through new sales. In short, savings bonds are critical to debt management, and because of their relatively low turnover, they can be a significant factor in the continuing battle against inflation.

Some of you may be asked by your employees whether it is good for the country for them to continue saving money in 1975. After all, the President has asked for a tax rebate in order to promote consumption, not to increase personal savings.

Our answer to that question is brief: yes, we need to increase consumer consumption and we hope that consumers will spend more during the coming year, but we also want to maintain and encourage greater habits of thrift in this country. The wise consumer, I believe, will spend a large part of his tax rebate but he will also put something aside for another day.

The fact is that when we pull out of this recession, as we will, the country and the consumer would be much better off if we restored the patterns of thrift and frugality that were once characteristic of the United States. The old saying that "thrift is the handmaiden of free enterprise" may have become a cliche, but that does not make it any less true. Indeed, it is another one of those time-tested facts of life that needs to be hammered home more vigorously than ever before.

From 1960 to 1973, the United States devoted less of its total output to capital investment than any major industrialized country in the Western world. And as a result, we had the lowest rate of growth in productivity among the industrialized nations -- 3 percent, compared to 6 percent for the French and Germans, and more than 10 percent for the Japanese. For a country that wants to continue as the leader of the Free World, these are startling figures. They make it clear that we must soon begin to shift far more of our resources out of daily consumption and into capital investments -- investments that will maintain our economic growth and provide jobs for a growing work force. Our best hope for increasing capital investments over the long run lies in greater personal savings and investments. That is true whether the savings are placed in savings accounts, in the stock market, in pension plans, or in U.S. Savings Bonds. All of them help.

To sum up, investing in U.S. Savings Bonds continues to be good for the investor, good for the Government, and good for the United States of America.

John DeButts and the committee that served with him in 1974 were superb in advancing the Industrial Payroll Savings Program. Now the baton passes to Gabriel Hauge and another distinguished group. Their goal is to increase participation by another 2,400,000 workers who either enroll in this program for the first time or increase their savings over last year. And with the Federal deficits as large as they are, I would repeat that 1975 may be the most important year for the payroll savings program since the Second World War.

Speaking here in these surroundings -- in the Franklin Room of the State Department -- we can be reminded of the day that Thomas Jefferson arrived in Paris to take the position of American Minister to France. Mr. Jefferson was asked if he had come to take the place of Benjamin Franklin.

"No one can replace Dr. Franklin," Jefferson replied. "I am only succeeding him."

And no one can replace John DeButts or any of the members of his committee. But just as Thomas Jefferson went on to great successes in Paris, we are confident Gabe Hauge and the members of the new Industrial Payroll Savings Committee will go on to great successes in the year ahead.

Thank you.

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FOR RELEASE UPON DELIVERY

REMARKS BY THE HONORABLE GERALD L. PARSKY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
LOS ANGELES CHAMBER OF COMMERCE
LOS ANGELES, CALIFORNIA
12:30 P.M., JANUARY 20, 1975

Foreign Investment in the United States

I am happy to have the opportunity to discuss with this group the role of foreign investment in the United States economy and our policies towards such investment. During the past decade, foreign investors have become increasingly attracted to invest in the United States for a number of reasons: we offer a vast, affluent, and integrated market; we are rich in natural and human resources needed to service such investment; and there are intangible benefits, such as access to advanced technology, which result from participation in the U.S. market. However, the single most important factor has been that our markets have remained open and we have afforded domestic and foreign investors equal treatment. Now, because of the potential of substantial investments by oil producing countries, the intensity of the debate on this subject has sharply increased and some have begun to question

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this basic underlying policy. In discussing this area, I think it is important to recognize that foreign investment and the policy that is adopted with respect to such investment, has a significant impact on other matters. It will have an overall effect on the domestic economy; it will have an impact on capital formation in the U.S. and our ability to satisfy the capital requirements of our businesses; and it will have consequences with respect to our general foreign policy.

Recognizing the interrelationship between these various factors, we must be careful not to let the emotions of the moment deter what we know to be in the long term best interest of the United States and the world.

Existing Foreign Investment

I think it is appropriate to begin by reviewing existing foreign investment in the United States. In the 18th and 19th centuries, foreign investors played a very important role in the economic development of our country, including, in particular, building the network of railroads that linked the various sectors together. In the 20th century, capital formation from domestic sources has far exceeded foreign investments, but the foreign investors still play an important role. Many people are not aware of the fact that some of our best known companies are partially or totally-owned by foreign investors. Companies such as Shell, Lever Brothers, and Nestle Co., yield the U.S. economy the same benefits as their domestically-owned counterparts -- that is, employment opportunities, tax revenues, and competitively-priced goods and services. Some foreign investors have brought unique technology to this country. The pharmaceutical industry provides a good example of this. Others have played a major role in the development of a particular state or region. As shown by such companies as Paul Masson, Sony and Toyota, foreign investment can mean more jobs and can offer other important benefits to a state's economy. Indeed, the Bank of America was initially organized with foreign capital. More important, the behavior of these companies does not differ from domestically-owned companies. The important fact is that ownership of these companies has not altered the way in which they function -- they still must abide by our laws, and they still must compete in our marketplace.

Because many foreign-owned companies are functioning like any other company, many people don't have an appreciation for the number of such firms. In total, there are over 5,000 businesses in the United States owned or controlled by foreigners.

The total book value (including both debt and equity) of foreign direct and portfolio investment in U.S. firms was well over $40 billion at year end 1973. As large as this may seem, however, it still amounts to less than half of the book value of investments by our companies abroad.

With respect to the oil producing countries, we have heard during the past year that they would be channelling tremendous sums of money to the U.S. which would have a detrimental effect on other countries. In fact, such a massive flow to the U.S. has not taken place. During 1974, the flow of funds from the oil producing countries into direct and portfolio investments in our corporate sector as well as into real estate has been quite small -- only about $750 million out of the estimated $60 billion in surplus funds the producers had to invest around the world. While they did directly place about $11 billion in the United States, most of these funds went into marketable government and agency securities, bank deposits and other short-term instruments.

The producers of course do have the capability of making substantially greater investments in U.S. industry this year and in coming years, and I believe the interest of some of the producers in such investments is increasing. I have just returned from a trip to the Middle East where I met with a number of those who are responsible for investing the oil producers funds. In assessing their attitude toward investment, it's important to distinguish among the countries. Countries such as Kuwait, the Gulf States and Saudi Arabia, which foresee a future of accumulating far more in revenues than they can hope to put to use domestically, regard their investment horizons as long term. The Kuwaitis, in particular, are searching for a variety of profitable investment opportunities in the industrial world, and their portfolio management skills are highly developed. They will be seeking to acquire assets that are at least no less valuable, in their view, than oil in the ground. Iran, on the other hand, has substantial reserves but also a large population and an ambitious internal development program. It's investment strategy will probably differ significantly from that of other oil producers with large surpluses. Iran will emphasize investments in companies which are in a position to help it expand its domestic industrial base.

On my recent trip, I discussed the oft-expressed fears of Arab capital controlling key industries in the west. They believe such concerns are unwarranted. They indicated that they do not have the desire to control companies, nor do they have the facilities to manage such companies. They view themselves like any institutional investor, seeking a diverse portfolio of investments which will yield the best long-term return. As such, they do not simply want to lend money. They want to participate in the growth of their investment -- certainly a legitimate desire.

We should also recognize that while the theoretical potential for oil producer equity investments is enormous, given the amounts of surplus funds being accumulated by far the greater portion of their funds will continue to be placed in bank deposits, other short term private sector investments, government securities, government-to-government loans, loans to multilateral financial institutions, and corporate bonds. A comparatively small portion of these funds is likely to go into equity investments in the corporate sector. Of course this will still mean some very sizable investments are likely, but I do not foresee an immediate threat of an oil producer nation takeover of our economy or of specific industries.

Sources of Information About Foreign Investment

It is argued by some that we would not know if such a takeover were, in fact, occurring. I think it might be useful to consider for a moment the sources of our information on foreign investment in the United States. Last year, Congress passed legislation which called for comprehensive and detailed surveys of foreign investments in the United States, both portfolio and direct. An interim report on these surveys will be sent to the Congress by October 1975. A very substantial amount of relevant

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information is obtained. The Treasury collects on a monthly basis from over 200 reporters data on transactions for foreigners in U.S. corporate stocks including new issues, redemptions, transactions in outstanding securities, and some direct investment. The Commerce Department collects and reports on a quarterly basis foreign direct investments in U.S. firms and annually Commerce also publishes estimates of the outstanding value of foreign portfolio holdings of U.S. stocks.

There are six federal commissions which require companies subject to their regulation to submit information regarding their ownership. The most important of these are the reporting requirements of the Securities and Exchange Commission which are designed to warn of substantial changes in ownership and control of corporations. The SEC's coverage is very broad, involving equities of all companies registered under the Securities and Exchange Act of 1934. This includes all companies whose securities are listed on national securities exchanges and also those companies whose securities are traded over the counter if they have one million dollars or more of assets and one hundred or more stockholders.

Another important set of reporting requirements are those of the Department of Defense which call for each contractor to submit a Certificate Pertaining to Foreign Affiliation to meet DOD Industrial Security Regulations.

If the total foreign ownership is above 6 percent, the firm must identify the individual foreign owners.

As we evaluate the adequacy of these sources of information about foreign investment, we must do whatever is necessary to provide the U.S. government with sufficient information to monitor and evaluate foreign investments. We have obtained a great deal of information already, but there may well be ways that better use can be made of this information. We do, however, want to avoid any unnecessary data requirements which we could not justify on a cost-benefit basis and which would tend to act as an unnecessary impediment to domestic and international capital flows.

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Restrictions on Foreign Investment

Aside from concerns about our ability to collect adequate data on foreign investments in the U.S., a number of people have called for increased legislative restrictions on foreign investment. Bills submitted to the 93rd Congress included proposals to establish maximum percentage limits on foreign ownership in any U.S. enterprise or in firms in particular industries, to require prior registration of foreign investors desiring to purchase an interest in U.S. firms, or to extend or tighten U.S. Government controls over foreign firms doing business in the United States. We have consistently opposed such legislation as unwarranted, potentially harmful to our national interests and, in general, contrary to our foreign investment policy.

The United States has traditionally followed a policy towards foreign investment which was based on the free flow of capital across international borders in response to market forces with a minimum of government restrictions. As I noted previously, foreign investments in the United States have, over the years, contributed greatly to the development of our country, and U.S. investors have contributed tremendously to economic advance throughout the world. We have incorporated this policy in a network of some 130 bilateral treaties with other nations beginning with the

Treaty of Unity and Commerce with France of February 6, 1778. These treaties are reciprocal in that the rights we seek for American investors abroad, we are also willing to accord to foreign investors in the United States. We have also been a leading force in international organizations, in particular, in the Organization for Economic Cooperation and Development, in seeking international agreements and understandings that would promote the liberal and non-discriminatory treatment of international capital flows and foreign investments.

We must seek to avoid any actions which would threaten to destroy or undercut these efforts to construct an enduring international economic order which allows the operation of free market forces to determine capital flows and maximize the efficient use and allocation of capital resources. Of course, we would also be concerned about actions which could lead to increased restrictions against our own economically much larger investments abroad.

It should be evident to all that now more than ever we must assure that investment funds flow into the most productive uses. In the United States, we foresee massive capital requirements in the corporate sector in the coming years. With the financing problems faced by domestic firms, particularly in raising new equity capital, a

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willingness and ability of foreign investors to place substantial funds in our equity markets could have an important positive effect on capital formation in our corporate sector.

Therefore, we have consistently felt that U.S. interests will be best served by admitting foreign investments to the United States, offering no special incentives and -- with a minimum of government intervention to protect national security and other essential national interests -- imposing no special barriers to foreign investors.

Safeguards Against Undesirable Foreign Investment

This policy, and the safeguards provided in various laws and regulation, admittedly were drawn up in a period during which we did not see the potential for very sizeable foreign investments that we do today. In light of this factor, we are intensively reviewing the adequacy and the appropriateness of our existing laws and regulations in the foreign investment area.

I believe that our current system of safeguards against undesirable foreign investments has proven to be quite effective. If we determine that additional measures are needed, we will not hesitate to recommend them; but in a way that is consistent with our commitment to an open world economy. As I think few people appreciate the scope of these current safeguards, I would like to review them with you.

First of all, there is a relatively short list of laws which prohibit or limit foreign investments in certain sectors for reasons of national security or to protect an essential national interest. These sectors include atomic energy, domestic airlines, shipping, federally-owned land, communications and media, and fishing. Of course many more sectors, really all sectors, of our economy are "important", but we must be very cautious about legislatively barring foreign ownership in any sector because of the potential economic effect. It should be emphasized that it is what a company does, not who owns it, that is the important factor. In the United States every foreign investment is subject to the same laws and regulatory constraints which control U.S. business. These pervasive laws to insure that all economic activity is conducted in our national interest provide us with the most protection against potential misuse of control by foreign investors. Consider the protection the following laws provide:

(1) Our anititrust laws apply equally to U.S. and foreign corporations and prevent a foreign investor from monopolizing a specific sector, or engaging in various

anti-competitive practices. They also prevent a foreign investor from making a purchase of, or engaging in a merger or joint venture with, a U.S. firm if the result would be to substantially lessen competition or tend to create a monopoly. These laws would also prevent such actions by a group of investors acting in concert.

(2) Through our export control authority, we can prevent the export of any U.S. product or resource if national security is threatened, if there is an excessive drain of scarce materials and a serious inflationary impact from foreign demand, or if controls are needed to further U.S. foreign policy. We have specific and quite effective controls over the exports of armament and certain controls over energy exports.

(3) Our securities laws also apply equally against foreign and domestic investors. They require disclosure of significant foreign ownership and prevent harmful activities with respect to tender offers, stock price manipulation and preservation of an orderly market.

(4) Our labor laws require all firms operating in the United States to abstain from unfair labor practices and to assure all workers safe and healthful working conditions.

(5) Most state corporation laws provide protection for minority shareholders against irresponsible action by majority shareholders, and these laws can be used to help

prevent abuse by a controlling foreign shareholder.

(6) The Government has broad emergency powers, including the Trading with the Enemy Act, which gives the President the power during a war or national emergency to completely control any property in the U.S. in which any foreign country or national thereof has any interest. The Government also has the basic power to condemn any property if within its jurisdiction.

Aside from these general provisions, there are many laws which prevent abuses in specific sectors. The defense area is of special concern, but here, too, I believe our safeguards are strong. First, the Defense Department may deny security clearances required to do classified work for the government to any firm under "foreign ownership, control or influence." Foreign ownership of producers of defense items is not expressly prohibited; but it is effectively deterred by the prospect that such an acquisition would very likely cause the firm to lose its classified government business. Also exports of arms and of classified technology related to defense manufacture are effectively controlled.

Finally, the government has certain priority performance powers giving the President power to require the priority performance of defense related contracts, to allocate materials and facilities necessary for national defense,

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and to place priority orders for a particular product and take possession of the facility if they are not fulfilled.

Conclusion

I have outlined these safeguards with you today because of the alarms that have been raised by some people who fear that foreign investors will use their money for political purposes or act in a detrimental way to our interests. I have discussed this issue with several Arab leaders, and I do not expect that the oil producers will seek to use their foreign investments in this way -- principally because it would be harmful to their own long-term interests. They have given me every reason to believe they intend to be responsible investors in our economy. I should add that they are seeking profitable investments, and in our economy no profit-making enterprise can survive the rigors of the marketplace very long unless it operates in a sensible manner, meeting the challenges of competition and offering the consumer the best product at the lowest possible price. Our combination of general and specific legal requirements and the constraints of the marketplace act to protect all parties from unreasonable corporate actions. It's one thing to act for political purposes when such action also strengthens you economically. It's quite another to act politically when it would damage you economically.

In summary, I would emphasize that with respect to foreign investment, we must seek, not so much a national policy, but a world policy. Recently, more than ever before, we have become aware of how interdependent the world is today. We must not reject that interdependence, but draw on it to build an international framework of cooperation; and foreign investment will be an important element. Now, as we discuss and debate what our policy should be, I hope that we can keep this debate on a well-informed and unemotional level. Too often politics and economics become so entangled that the emotions of the political arena distort the economic realities of the marketplace. Let us strive not for what politics may suggest can be done, but for what we know needs to be done. As with so many issues today, investment and investment-related issues confront us with a choice between more governmental interference, more restrictions on the market, or less. We must not reverse our basic commitment to an open world economy; for if we do, instead of expanding investment and bringing the nations of the world together, we will surely sink into a world of small, isolated fragments. To me our choice is clear, and I am confident of what our response must be.

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FOR RELEASE UPON DELIVERY

REMARKS BY THE HONORABLE STEPHEN S. GARDNER
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
NATIONAL ASSOCIATION OF HOMEBUILDERS
SUNDAY, JANUARY 19, 1975
DALLAS, TEXAS, 1:00 P.M. CST

Good afternoon,

I bring with me today the special and sincere regrets of Secretary Simon. He had looked forward to this occasion because he wanted to talk with you about the new directions of the Administration policy and most particularly because he wanted you to know how vital he believes the health of the housing industry is to our country. Unfortunately his calendar as chief economic spokesman is not his own these days.

These are indeed troubling times for all Americans. Millions of men and women are out of work and cannot find jobs as the economy continues one of its sharpest declines since the war. Millions of others are suffering hardships because the rate of inflation continues to take a heavy toll. And I know that your industry, like the automobile industry, is especially hardhit and worried about the future.

We need no more examples than the events of the past year to conclude that even our enormous economy, when beset from without by such potent adversity as the oil embargo and from within by years of fiscal overstimulation, is going to react like everyone else's economy.

Recession, growing unemployment, inflation, are the background for, but not the subject of, my talk today. I want to deal with some subjective issues which bear on our ability to regain a course of economic progress, to overcome our difficulties, all of which I firmly believe we can do.

It seems almost too elementary for me to suggest that what has been achieved in our free economy through the mechanism of the marketplace and the largely unplanned but earnest efforts of men has created more social, economic and political benefits than any society in history has ever enjoyed. Routinely, we have defended most of these traditions, ideals, our form of government and bragged about our success as a land of opportunities, innovation and productivity where a man could rise through the work of his own hands, his mind, his ingenuity.

But strikingly, and perversely it seems, during the span of years of our greatest successes, we have increasingly denigrated, criticized, become embarrassed about, the core mechanism, the profit motive that has driven our economic machine. I believe this rejection has been intensified, however illogically, by our noble ventures in social programs to stamp out poverty, discrimination and our efforts to carry the egalitarian banners of the free world.

Thus, in the economic storm swirling around us today there is a strong and obvious bias towards transferring a further sizable block of incentives and economic control from the private to the public sector. The American public is restive, angry, hurt and deeply concerned. There is a rising clamor for government controls, intervention, regulation, rationing, tariff protection and a policy of economic nationalsim.

What this will do to the basic structure of our American system is not my only worry. What it will do to our opportunities to restore economic growth and control inflation is my immediate concern. We have amassed in America impressive evidence for future historians of the comparative abilities of a free versus a planned economy.

And we need not draw our examples solely from our own experiences. When the engine of private enterprise is sufficiently constrained, government loses its strongest resource in the fight to restore economic and social progress. That is just a simple fact. Today government represents 33% of GNP. The private sector is twice as large.

A "New Direction"

The President has been beset by this gathering storm and he has been working steadily to come up with solutions. The media, the Congress, the people have urged him to be tough, and he has. They have urged a strong energy program and its there. They have urged that he deal with recession and he has, dramatically. The program that he presented to the nation and to the Congress this past week represents the results of many long hours of deliberation and documentation. It is a complex program because our problems are complex. But I think that as it is debated and discussed in the coming weeks it will be percieved to be a comprehensive and fair approach to the crisis in our economy.

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If I may use two words to sum it up, I would say that the President's program sets us in a "new direction."

For months, our economy has been heading on a downward course. This program will help turn it around, putting America back to work.

For more than a decade, we have had a growing dependence upon foreign energy sources. The President has staked out a new direction of energy independence.

For more than four decades, we have also been heading in the wrong direction on government spending and encouraging inflation. The President is proposing a dramatic change. And the special virtue of this program is that it marshalls the larger resources of the private sector through incentives, tax relief and a tax cut and other measures absolutely essential to economic growth.

I said earlier that government expenditures are 33% of GNP but if the present trends of mandated program growth continue, OMB has estimated that by the end of the century the government would dominate the economy and account for 66-2/3rds of our Gross National Product.

Governments by definition restrict, control, enforce laws, tax people: in essence, defend the status quo. They are referees of the game. They should hardly ever be allowed to play.

The Economic Package

Now let me turn now to a discussion of key elements of the President's program and it is divided essentially into two packages -- one to deal with immediate economic problems and the other to deal with long-range energy problems.

On the economic side, the President's main proposal is a one-year across-the-board cut of $12 billion in individual income taxes and a one-year cut of $4 billion for corporations in the form of a short-term increase in the investment tax credit. Our best estimate is that the economy will begin bottoming out during the spring and summer. The President's program would begin to take full effect during the summer, and it would help to make the recovery sharper and stronger.

Some people have criticized the tax cut because it does not return all of the money to lower and middle income families. There are two answers to that charge. First, when you combine the effects of this tax cut with the tax reductions that are included in the energy package, you will see that lower and middle income families come out substantially ahead of everyone else. Secondly, in terms of solving our immediate economic problems, we have to recognize that the heart of the recession is in major consumer items -- housing, automobiles and the like. We have to encourage people to increase their purchases of these items. We will never succeed in that venture if we put all of the tax reduction at the very bottom of the tax scale. Some of it must go to your market.

Other critics have said that we should give no further incentives to business, aside from what I have said so far. I can only believe that those critics no longer understand the capital investment trends in this country. When are we going to wake up to the fact that America is investing far less of its resources in its future than almost any other industrialized nation" From 1960 to 1973, the United States was devoting less than one-fifth of its total output to capital investment -- a percentage that was smaller than Germany, France, Japan and several other countries. Partly as a result, our annual growth rate in productivity was only 3 percent during this period, compared to 6 percent for the French and Germans and more than 10 percent for the Japanese. Capital investment is the key to expanding our industrial base to providing new jobs, and the kind of economy that will support the social progress that is unique in America.

Corporate profitability has been declining for more than a decade, it is significantly lower now than it was in the mid-1950s. If we want to put our domestic house in order, it is absolutely essential that we improve the climate for business investment, business expansion, and business profit in this country. The President's program would help to set us in the right direction.

A third kind of criticism is leveled at the tough new ceiling the President wants to place on Federal spending. The President is insisting that we enact no new spending programs this year, except in energy, and that increases in government pay, military retirement, Social Security, and similar programs be held to 5 percent. To me, this cap on spending is not only novel but courageous. Let us recognize two essential points:

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-- First, unless we hold down spending, we are courting a new round of very serious double digit inflation. I need not remind you what extremely high inflation rates and equally high interest rates will do to the housing market. As it is, our energy crisis is going to require efforts that will raise the consumer price index by two points or so. That is a high price, but we believe it is necessary for our long-range health. We also believe that the back of the most virulent part of inflation may now be broken and that the rate of inflation should be coming down. Last week's wholesale price figures, showing a leveling off of industrial prices in December and an actual reduction of all items together, was encouraging. Our expectation is that the downward trend in the wholesale prices will work their way through to consumer prices and that even with the enactment of the full energy program, we can reduce the rate of inflation to below the double digit mark during 1975. But, if we have a flood of new government spending or if we turn to an excessively stimulative monetary policy, we will lose. Under those circumstances, we could very easily set off another round of record-breaking inflation.

-- Secondly, let us recognize that in order to finance its deficits, the Federal Government must enter the private capital markets to borrow money. As a borrower, the government always goes at the head of the line, and if it borrows an excessive amount of money, it can drive up interest rates for everyone else. One of our most critical concerns at the Treasury Department is the growing domination of the private capital markets by governments at all levels -- local, state and Federal. In the fiscal years 1973 and 1974 almost half of all funds raised in the capital markets went to Government agencies or government-sponsored agencies. This year, because of the tax reductions, we expect the level to be significantly higher. This will mean that we will have a tight fit in the capital markets, but we think that under the President's programs the problem will be manageable. However, if we turn on new government spending, the deficits could rise further, choking up those markets and causing problems for the entire economy. This is a result that we must avoid, and we can only avoid it if we keep a tight lid on new government spending.

The Energy Package

Essentially, the President faced three options in the energy field: He could do nothing, he could turn to rationing, or he could use the pricing system to encourage greater conservation.

If he had done nothing, it should be clear that the consequences would have been severe for both the United States and the rest of the world. Five years ago, we were paying about $3 billion a year for foreign oil. In 1974, we paid out $24 billion for that oil, and this year the figures could go higher still. The United States simply cannot afford to ship so much of its national treasure overseas and maintain its economic and political security. Thus, we have no choice but to act.

We would be making a terrible mistake, however, if our desire for action leads us down the path to rationing. It would be an unacceptable bureaucratic nightmare.

The answer the President has chosen is the third alternative -- use of the pricing system to encourage conservation -- something practically every oil short nation in the world has adopted. The price will be high, but it has to be high to overcome the challenges we face. In brief, the President is taking executive actions and asking the Congress for legislative actions which would raise the prices of most energy products by a total of about $30 billion a year. In order to ensure that the higher prices do not depress the economy, he is also asking for tax changes that would return most of that money to consumers and to industry. Our best estimate is that the average family would pay about 25 percent more for fuel than they have in the past, but at least in the case of lower and middle income families who are careful in the way they use energy, the tax reductions should more than compensate for the higher costs. These measures are very tough, and the President is holding additional measures in abeyance in case even these fail to reduce our level of oil imports by a million barrels a day.

Combined with the conservation measures, the President is also pushing hard for Congressional actions that would increase our domestic production. It is incongruous to think how much time and money we have wasted because of environmental and legislative delays over energy. Private industry originally estimated that the Alaskan pipeline could have been put in service in 1973 at a total cost of about $900 million. Now, because of delays, that pipeline will not become available before late 1977, and its estimated costs are projected at $6 billion. There are similar problems with legislation which would provide more natural gas to consumers, would open up the petroleum reserves, and would allow greater use of our oil resources off shore. The President's program is intended to unlock these resources and, in the most realistic approach that this country has ever had towards its energy needs, would free us from dependence on foreign energy sources by 1985.

Impact on Housing

I know that Secretary Lynn will be here soon and will talk about the impact of the economic and energy program on the housing industry. I have no intention of poaching upon his reserve. But I want to say three things about your industry.

First, as you know, the Administration has proposed financial insitution reform in an Act which was introduced in Congress in 1973. This is an important structural change which would overcome the anachronistic regulations which restrict the freedom and viability of our financial institutions, particularly thrift institutions.

We believe that the Financial Institutions Act will play an important part in helping to relieve the cyclical pressures that have constrained the flow of funds available for housing. It will strengthen thrift institutions and allow them to provide a more competitive full set of family financial services to attract funds. It will also provide a clear incentive for housing lending through the mortgage interest tax credit which will be available to all financial institutions which provide money for home purchases.

Second, the private housing markets in America is unique in the world. No other economy has been able to provide such a large proportion of its people with single family privately-owned residences or attractive alternatives built by the private initiatives of entreprenuers.

This I credit with being a fundamental strength of our enormous market for consumer goods and, in fact, it is the real underlying strength of our private economy. Those who criticize the incentives to business that the President proposes, those who have criticized the tax cut as too generous for people of average incomes are attacking your business and forgetting that real social progress can only come from a healthy job producing economy.

And finally, last year with the financial markets in disarray the Federal Government committed 20 billion dollars in programs to aid in the financing of housing. When I look at the state of your business today I don't think I'll be contradicted if I say it didn't do much good. You need a revived economy increasing personal incomes, less unemployment in other words a healthy private sector more than all the government subsidies man could possible devise.

Conclusion

To summarize, President Ford has presented us with a sweeping and comprehensive set of proposals to get this country moving again despite a serious energy shortage. The time has come for action. The President has acted, and he has acted boldly. Now it is time for the Congress to act. Our program is before the people; as soon as the Congress moves, we can get on with the job.

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WASHINGTON, D.C. 20220 TELEPHONE WO4-2041
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THE DEPARTMENT OF THE TREASURY 1789

FOR RELEASE 6:30 P.M. January 20, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.6 billion of 13-week Treasury bills and for $2.2 billion of 26-week Treasury bills, both series to be issued on January 23, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing April 24, 1975		:	26-week bills maturing July 24, 1975	
	Price	Equivalent Annual Rate	:	Price	Equivalent Annual Rate
High	98.399 a/	6.334%	:	96.796 b/	6.338%
Low	98.383	6.397%	:	96.765	6.399%
Average	98.390	6.369% 1/	:	96.778	6.373% 1/

a/ Excepting 1 tender of $920,000
b/ Excepting 1 tender of $425,000

Tenders at the low price for the 13-week bills were allotted 89%.
Tenders at the low price for the 26-week bills were allotted 97%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	:	Applied For	Accepted
Boston	$ 38,095,000	$ 26,155,000	:	$ 20,740,000	$ 10,740,000
New York	3,266,980,000	2,109,315,000	:	2,942,975,000	1,837,645,000
Philadelphia	32,505,000	31,960,000	:	10,365,000	10,265,000
Cleveland	46,640,000	46,230,000	:	72,295,000	54,965,000
Richmond	31,085,000	30,765,000	:	16,305,000	15,895,000
Atlanta	42,105,000	34,815,000	:	24,235,000	19,765,000
Chicago	213,335,000	88,235,000	:	172,865,000	75,850,000
St. Louis	49,640,000	36,010,000	:	41,735,000	32,235,000
Minneapolis	14,415,000	10,095,000	:	12,485,000	7,810,000
Kansas City	63,345,000	51,545,000	:	29,240,000	23,140,000
Dallas	25,645,000	19,545,000	:	18,425,000	12,535,000
San Francisco	261,260,000	115,890,000	:	218,235,000	99,235,000
TOTALS	$4,085,050,000	$2,600,560,000c/		$3,579,900,000	$2,200,080,000 d/

c/ Includes $469,235,000 noncompetitive tenders accepted at average price.
d/ Includes $218,165,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 6.56% for the 13-week bills, and 6.68% for the 26-week bills.

Department of the TREASURY NEWS
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January 21, 1975

MEMORANDUM TO THE TREASURY STAFF

For your information and guidance, we have produced the transcript of the remarks made by Secretary William E. Simon at a Treasury Department Press Conference held on January 16, 1975.

Office of Public Affairs

Attachment

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

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
WASHINGTON, D.C., WEDNESDAY, JANUARY 22, 1975

It is a privilege to appear before this Committee as you begin the work of the 94th Congress. During the next two years, you will be considering many of the most significant issues facing the United States. There will be times when we will differ on those issues, but as in the last Congress, I want to work with you as closely as possible to ensure that those who are served best are those whom we all serve, the people of this country. Toward that end, I pledge to this Committee the full cooperation of my office and of all who work at the Treasury Department.

President Ford, after considerable study and consultation, has proposed to the Congress an integrated and comprehensive program in both the economic and energy fields. In my view, the President's program represents the best means of dealing with those problems. In working with you, my first objective will be to obtain swift passage of legislation that is necessary to carry out our program.

The occasion for my appearance this week is to discuss two items: First, the President's tax proposals and their impact on the economy; and secondly, the need to raise the federal debt limit. With the consent of the Committee, I propose to discuss the first of these items today and to address the second tomorrow.

The President's program is designed to deal with three basic and urgent problems:

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--inflation;

--recession; and,

--energy independence.

These problems are difficult and complex, and their solutions will also be difficult and complex. To some extent, the remedies work at cross purposes with each other. The answers are neither black nor white, but matters of balance and judgment.

Some say we can't solve all these problems, at least not all at the same time. I believe we can. The President believes we can, and has charted the course to do it. Indeed, we have no other choice, for the penalty for inaction could be frightening. We will ultimately be held responsible for the results, no matter what the pollsters say today about our approach.

The proposal for a temporary tax reduction to stimulate the economy has the very highest priority and we urge that you enact it immediately, even if that means separating it from the other elements of the President's proposals. However, all of the elements in the proposal are interrelated and, therefore, I need to deal with them all here today.

Inflation.

Inflation, like interest, tends to compound. It reached an annual rate of more than 12% in 1974, the highest level in peacetime history. The damage has been extensive. The lifetime savings of many have shriveled in real terms. Interest rates have risen to all time highs, with adverse effects on the livelihoods of millions, on the opportunity for families to own their own homes, and on the ability of others to start or stay in business. The uncertainties created by inflation undermined the confidence of both consumers and investors, with consequent damage to jobs and to the new investment and increased productivity which are required to stem inflation. I do not believe that our economic system, as we know it, could long survive such a trend. In 1919, J. M. Keynes wrote:

> "There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."

I'm told that statement was a follow-up by Keynes on a similar remark of Lenin, to the effect that inflation could destroy capitalism.

Inflation is popularly said to be caused by "too much money chasing too few goods." That is an oversimplification, but it captures the essential truth.

There have been many causes for this inflation, but, in my opinion, the biggest single factor has been a prolonged period of large government deficits, including the off-budget lending and loan-guarantee programs.

The momentous growth in federal expenditures and federal deficits has been truly startling. It took 186 years for the federal budget to reach $100 billion, a line it crossed in 1962, but then only nine more years to reach $200 billion, and only four more years to break the $300 billion barrier. Revenues, of course, have not kept up with expenditures, so that when we close the books on fiscal year 1975, we will have had budget deficits in 14 of the last 15 years--and the accumulated debt for that period alone will exceed $130 billion.

There can be no doubt about the inflationary impact of such huge deficits. They added enormously to aggregate demand for goods and services and were thus directly responsible for upward pressures on the price level. Heavy borrowing by the federal government 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--a subject I will address in more detail tomorrow. 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. In short, 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.

When the government runs a deficit--when it spends more than it receives--it must borrow to make up the difference. Under our modern monetary system, that kind of borrowing almost always results, sooner or later, in the creation of too much money. It seldom results in the commensurate creation of additional goods and services.

Government borrowing does not necessarily require the immediate creation of too much money, for the government can borrow existing money in the private capital markets. To that extent, it competes with private demands for capital, preempts funds that would otherwise be used for private investment and, in a period of strong private demand, causes interest rates to rise.

If government borrowing in the private capital market grows so large that it threatens to dry up credit for private borrowers or causes abrupt changes in interest rates, the Federal Reserve customarily steps into the market and purchases government bonds for its own account. The Federal Reserve pays for that purchase not with money already in the system, but by setting up a new credit balance on its books. That almost immediately causes the total money supply to increase by several times the amount of the credit. In this way, the financing of large deficits causes the money supply to increase substantially, which creates more inflation. This has been a major part of the inflation explosion over the past decade.

In times of recession, private borrowing typically slackens as businessmen have fewer needs for credit. If additional government deficits simply take up that slack, it does not jeopardize the needs of the private sector and does not drive up interest rates. In the current recession, however, there may be less slackening in private demands than usual because of the high debt-equity ratios that have become typical, the general illiquidity of business, the inability of corporations to raise capital in the equity markets, and the necessity to finance inventories and capital goods at inflated prices.

If we cannot finance the deficit within the recession induced slack in the capital markets, then we shall have a credit "shortage" that will drive up interest rates significantly. The Federal Reserve could prevent that only by significantly increasing the supply of money. As we assess that situation, we must remember, too, that what appears to be slack at the moment may disappear as business bounces back and its demand for credit returns to normal. When the recession is over, and goods and services have returned to their original pre-recession levels, if the money supply has been significantly increased, we shall have created additional inflation.

There is no way to escape the basic dilemma presented by large government deficits. On the one hand, if the deficits cause a significant increase in the money supply, we shall have further inflation. On the other hand, if deficits are not permitted to increase the money supply, we must be prepared to endure tight credit and high interest rates.

This is a very difficult circle to break. The only solution is to take a long-term view and resist the temptation to deal with each painful aspect of the cure as a crisis to be solved by short-term remedies, i.e., by more deficits.

A most important tool in beating inflation is increased productivity. We need to encourage and facilitate conduct that will increase the supply of goods and services, so that the increased money supply that will surely flow from these deficits will be chasing an amount of goods and services that has also increased. Just getting back to pre-recession levels of goods and services is obviously not enough.

<u>Recession</u>.

We are presently in a full-fledged recession. It is in substantial part attributable to our inflationary excesses. It is the hangover that follows the revelry.

One of the major factors in the current recession is the decline in the housing industry, which is a key component in our economy. The housing industry is especially vulnerable to high interest rates, and was thus hard hit when inflation caused interest rates to rise to all time highs. Thus, so far as housing goes, it is inflation itself which caused the recession. We cannot expect the housing industry to regain its full health until we get inflation under better control.

It is tempting to believe that housing can be helped by driving down interest rates through a more rapid increase in the supply of money. That does not work in an inflationary climate, however, because the increase in the money supply further increases inflationary expectations, sometimes with a lag and sometimes almost immediately, and thereby sends interest rates not lower, but higher. Thus, housing is hurt, rather than helped, by such policies.

In the same way, inflation was a major factor--perhaps the major factor--in demolishing consumer confidence. Polls taken by the Survey Research Center at the University of Michigan show that the precipitous decline in consumer confidence began when prices started hitting new peaks--well before the effects of the recession were clearly felt. While the recession has driven confidence even lower, it was inflation that pushed it over the brink. This loss of consumer confidence has caused the biggest drop in consumer purchases since the Second World War and is a significant part of the current recession.

Some part of the recession is also attributable to the program to bring inflation under control. When we embarked on that program, we knew that it would dampen economic activity, for that is an inevitable side effect of the process of slowing inflation. The principal tool in winding down inflation has been a policy of monetary restraint, which was in effect most of last year. If the money supply had been permitted to increase fast enough to accommodate all of the price increases we were experiencing, the additional money would have caused the prices to spiral even faster. Thus, it was necessary to slow down the rate of growth in the money supply. Whenever that is done, some are caught in the crunch.

Those are the hard trade-offs. Inflation causes dislocations. And stopping inflation causes additional dislocations. Dislocations cause the economy to fall off.

To cure our economic problems, we will have to administer the medicine continuously over a period of years. We are a long way from full recovery. And we have to watch the patient carefully all the while, because the side effects of the medicine are strong and we may need to adjust the prescription from time to time.

Our goal must be to keep a balance. We want to do as much as we can to stop inflation without unduly hampering economic activity. At the same time, we all recognize today that recession has become a much more serious problem, causing widespread hardships and unemployment. Moreover, it has developed more rapidly and has been steeper than anyone expected. It is apparent that under these circumstances we must shift the balance of our policies more heavily in the direction of fighting the recession. The President's recommendations for a temporary tax cut are designed to ensure that the recovery we expect in the middle months of the year is sharper and stronger than would otherwise be the case.

We can and must have recovery from the current recession, but we must do that in a way that does not lead to an overheating of the economy again. We will lose the opportunity to achieve stable economic growth if we switch to excessively stimulative policies. That has been the repetitive pattern over the past decade. Every time the economy showed signs of hesitation, there was a pronounced shift to stimulative monetary and fiscal policies.

One of the best examples occurred only a short time ago. After a rapid acceleration in the rate of inflation during the late 1960's, a program of fiscal and monetary restraint was started in 1969. As a result, inflation peaked out at 6% and then declined slowly to about 3-1/2% 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.

The result of such stop-and-go policies is that we have pushed the inflation rate up onto higher and higher plateaus. In 1966, the peak inflation rate was about 4%; in 1970, it was about 6%; and now prices are rising at about a 12% rate. The same process ratchetted interest rates higher and higher. In 1966, rates on long corporate bonds peaked at a little over 6%; in 1970, they reached almost 10%; and this past year, the high was 12%.

Energy Independence.

Energy independence is both a political and an economic problem for the United States.

Oil is an extremely important and pervasive commodity in our economy. In recent years, our consumption has risen rapidly but our production has declined. We are now dependent on foreign sources for nearly 40% of our needs. Major foreign suppliers have organized a cartel and, at least at present, have the power to bring about political and economic spasms of the kind which we have recently experienced. In the last year and half, the Arab embargo created major disruptions throughout our economy, and the quadrupling of foreign oil prices has contributed significantly to both the inflation and the recession we are now experiencing.

Our economic system is strong and resilient and can undoubtedly survive almost any unfortunate development that is likely to occur in the near future with respect to oil. But many other nations are less fortunate, and our own economy is so interconnected with that of other nations that their problems are in substantial degree our problems. Trouble in one or more national economies abroad could have very serious effects on our own.

If we are to retain control over our own economic destinies, we must achieve independence. We can do it. And when it is clear that we intend to do it, we will regain a great deal of control over the situation. We will control very little from our knees.

The President's energy program is therefore designed primarily to reduce our dependence on imported oil. In order to do that, we will need to develop alternatives for oil and we will also need to reduce our total demands for energy of all kinds.

We are dealing with a long-term program. We believe we can achieve virtual independence in 10 years, but only if we start promptly, work hard and continuously, and make significant reductions in our demands for energy.

Rationing is one way of curbing demand and a number of national leaders have proposed it. Public polls also show a surprising amount of support for rationing. I cannot imagine, however, that the American public will really want it once they think it through or would live with it if they got it. Remember that we are talking about a permanent program. If we should opt to travel the rationing route, we will not get rid of it. If we were to let it go we would--overnight--be again non-self-sufficient.

We could perhaps live with rationing in a period of temporary emergency. But as a way of life, I suggest it is fundamentally inconsistent with our system and with the spirit of the American public.

Even in times of emergency, rationing has never worked fairly or efficiently. To cut a million barrels a day from our consumption by rationing only gasoline for private households, we would have to hold drivers to an average of less than 9 gallons per week--a reduction of about 25% from today. To reach the 1977 goal of a 2 million barrels a day reduction would require a second 25% reduction. Some persons would obviously need more, which means that the basic ration for ordinary persons would have to be even less. But gasoline accounts for only part of each barrel of oil, and we would clearly need to ration the remaining products, too--fuel oil, jet fuel, diesel fuel, refinery products going into petrochemicals, etc. Who would decide which persons needed more and which needed less of each of these things? Every family, every car and motorbike, every store, school, church, every manufacturer--everything and everybody--would have to obtain a permit for a certain quantity of gasoline, electricity, natural gas, etc. Those allocations would have to be changed every time someone was born or died or moved or got married or divorced, and every time a business was started, merged, sold out or bought another, or the church or school added on a new room. And some government official would have to approve it.

What would the rationing bureaucracy do about such cases as:

- The low-income worker who owns an old car that gets only nine miles per gallon but can't afford to trade it in? His affluent neighbor who buys a new car that gets 22 miles per gallon?

- The low-income family that heats with oil a small but poorly insulated house, while their wealthy neighbor heats a large, well-insulated house with gas?

- The Montana rancher who drives nearly 600 miles per month and the Manhattan apartment dweller who drives less than 100 miles?

- The family that has to move from New York to California and use up several months' coupons in making the trip? One out of every five families moves every year.

- The family with sick members? The family that does turn off the heat in empty rooms and the family that does not? The family with few children and many rooms to heat and the family with many children but few rooms?

- The migrant worker who drives large distances every year but can't afford a more economical car?

- The shortages that would inevitably develop in areas where the coupons happen not to match the gasoline supplies?

- The gas stations, with limited quantities to sell, that maintain only limited services and are always closed on evenings and weekends?

- The collusion, counterfeiting and illegal activities that would inevitably develop?

Last year, when we considered the feasibility of rationing gasoline, we concluded that while it could be implemented, it would take four to six months to set up, employ about 15 to 20,000 full-time people, incur $2 billion in federal costs, use 40,000 post offices for distribution, and require 3,000 state and local boards to handle exceptions. When we consider the problems of just getting the mail delivered, are we really ready to trust an army of civil servants--however able and well-intentioned--to decide who deserves just what of this basic commodity?

People should ask themselves which they prefer: the suggested increase in prices, or a system in which someone else could tell them now and for the indefinite future where and when they might drive or how warm they might keep which rooms.

Does anyone honestly believe that the American public is willing to trade these basic freedoms--in perpetuity--for 10¢ a gallon?

The President has proposed instead that we reduce consumption of oil by the most neutral and least bureaucratic system available--through the price system. The energy proposals would raise the price of oil. At the same time, income tax cuts would increase the disposable incomes of every household. Taxpayers could, if they wish, continue to purchase more expensive oil and oil products. And they would have extra money to do it with. The question they would face is whether they wish to spend that extra money for more expensive oil or whether they wish to use it for some other purpose. A great many will choose to use it for other purposes. That is particularly true of businesses, which alertly switch to alternative products when a price advantage appears. The economic data available, updated by the experience of the last year, indicate that a tax of 10¢ a gallon spread across all the products manufactured from a barrel of crude oil will reduce consumption enough to meet our goals.

There has been a great deal of talk about the public being willing to make sacrifices. I believe they are. But for the average consumer this program should involve little sacrifice. For most, it would not even involve inconvenience or extra expense. The average consumer would be faced with higher oil prices, but he would also have additional money that would fully compensate him. He would retain total freedom of choice.

I realize that it is not immediately apparent to the average citizen how this program as a whole would reduce consumption and yet cost him little or nothing. Education is essential and I am counting heavily on the objectivity and expertise of this Committee and its able staff to achieve it.

The Need for Business Tax Relief.

The proposed program provides tax relief for both individuals and business. Individual income taxes account for about three times as much revenue as corporate income taxes, and relief would be allotted in that same three-to-one ratio.

Businesses, like people, have been badly buffeted by our economic difficulties. Many are in precarious financial situations. One need only look at the unemployment rolls in Detroit to see how important it is to all of us to maintain a healthy climate for business. Surely, the misfortunes of the auto industry have created many more hardships for auto workers than for auto stockholders. We will all be losers if our businesses are unable to earn reasonable profits and thus to make the investments that will mean more jobs and greater productivity in the future.

The suggestion in recent years that businesses have prospered while individuals have suffered is simply untrue. Corporate profits in the aggregate, realistically stated, are at an all time low as a percentage of our total national income.

Reported profits may be higher than in the past, but they do not tell the full story. There are two major elements which substantially overstate reported earnings in periods of inflation. They are inventories and depreciation.

The inventory situation may be illustrated by assuming a company that normally maintains an inventory of 100,000 widgets. If inflation causes the price of widgets to increase by $1, from $2 to $3, under traditional FIFO accounting the $100,000 increase in the value of the inventories is reported as profits, even though the company is no better off in real terms than it was before the inflation. Economists have long recognized that this increase is not a true "profit" and the Department of Commerce national income accounts have, from the inception of those accounts in the 1940's, separated it from profit figures.

For 30 years, business taxpayers have been permitted to exclude these amounts from taxable income, but only if they reported on the same basis to their shareholders and the public. Many businesses have preferred to pay higher taxes rather than report lesser earnings to their shareholders. With the rapid inflation which has occurred in the last year, however, the penalty in increased taxes on unreal income has become so great that there has been a major shift to LIFO accounting. This is long overdue and I regret that it has taken the business world and the accounting profession so long to get there.

A similar situation exists with respect to depreciation. In a period of rapid inflation, depreciation deductions based on historical cost result in reporting as income amounts which do not represent an increase in wealth but which are required merely to stay even. In a period of constant and substantial inflation, this subject urgently needs re-examination. Under current tax and accounting rules, business management is powerless to deal effectively with this problem. Businessmen often complain that depreciation charges are too low for tax purposes because of this factor but their credibility is severely impaired by the fact that, more often than not, they report to their shareholders and the public less depreciation (and therefore more income) than that which they are permitted to deduct for tax purposes.

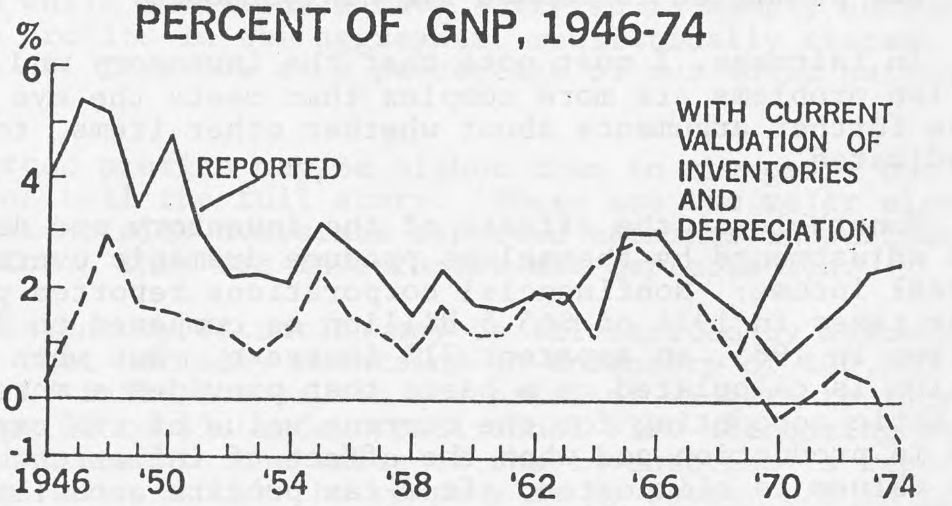
In fairness, I must note that the inventory and depreciation problems are more complex than meets the eye and raise further arguments about whether other items, too, should be adjusted.

Nonetheless, the effects of the inventory and depreciation adjustments by themselves produce dramatic overstatement of real income: Nonfinancial corporations reported profits after taxes in 1974 of $65.5 billion as compared to $38.2 billion in 1965, an apparent 71% increase. But when depreciation is calculated on a basis that provides a more realistic accounting for the current value of the capital used in production and when the effect of inflation on inventory values is eliminated, after-tax profits actually declined by 50%, from $37.0 billion in 1965 to $20.6 billion in 1974. A major factor contributing to this decline is that income taxes were payable on these fictitious elements of profits. That resulted in a rise in the effective tax rate on true profits from about 43% in 1965 to 69% in 1974. Thus, a realistic calculation shows that the sharp rise in reported profits was an optical illusion caused by inflation.

Since, in our economy, corporate profits are the major source of funds for new investment in productive capacity, all of this has grave implications for investment and growth. That is perhaps seen best in the figures for undistributed profits of nonfinancial corporations, restated on the same basis to account realistically for inventories and depreciation. It is the undistributed profits that corporations have left to fund additional <u>new</u> capacity (as distinguished from the replacement of existing capacity). In 1965, there were $20 billion of undistributed profits. By 1973--after eight years in which real GNP (the rest of the economy) grew 36%--the undistributed profits of nonfinancial corporations had dropped to $6 billion. And for 1974, our preliminary estimate is that the figure for undistributed profits is a minus of nearly $10 billion. That means that there was not nearly enough even to replace existing capacity, and nothing to finance investment in additional new capacity.

The following chart shows with dramatic--and frightening--clarity the true state of affairs.

UNDISTRIBUTED PROFITS OF NONFINANCIAL CORPORATIONS AS A PERCENT OF GNP, 1946-74



The business community is properly distressed that the public does not realize the seriousness of this situation. I have to say, however, that at least a portion of the blame can be laid at the door of business itself. Businesses like to report high earnings to their shareholders and to the public. Reported earnings are the "report card" for management. The willingness of business to continue using methods which overstate real economic incomes in an inflationary period leads the public to believe that business is a major beneficiary of rising prices. That causes the man in the street to believe that the total income pie is larger and that he has a legitimate claim on it, which, in turn, heightens the wage spiral and intensifies the squeeze on corporate profits and the difficulty of capital formation.

The fact that these overstated profits are also subject to tax presents a serious problem that we hope you will look into when you turn to tax reform later this year. The problem is too complex to deal with quickly, but it may affect the ultimate use of the revenues allotted to business relief.

While the deterioration of business profits may not be apparent to the man in the street, or even in the stockholders' reports, the professionals have not been fooled. The devastating effect of inflation on business profits has been reflected in sharp price drops in the equity markets. This decline in the stock market has rendered it practically impossible for most companies to raise money on favorable terms in the equity markets. As a result, corporations have been forced to rely more heavily on borrowed money, thus raising their debt-equity ratios to unusually high levels and driving up interest rates. Such interest rates become a major depressant on corporate earnings. Equally important, the lessening of the equity "cushion" leaves businesses inflexible and very vulnerable to bankruptcies in a business downturn.

The oil and environmental problems have been a further and major exacerbation. The past year's increase in the cost of petroleum products has rendered many business operations substantially less profitable, if not unprofitable. The airline, auto, travel, and electric utility industries--which are all closely related to oil usage--were hard hit. Increased oil prices have caused lower profits, lesser incomes, and fewer jobs in many businesses--which, stated another way, means that businesses were not able to pass on fully increased energy costs, and were required to absorb a significant portion in the form of lesser profits.

All of these developments argue strongly that tax relief for business is both deserved and required. We should also keep in mind that our system of business taxation bears more heavily on corporations than do the tax systems of almost every other major industrial nation. Our provisions for capital recovery are more restrictive than those in most other countries. More importantly, almost all our major trading partners have in the last few years largely eliminated the classical two-tier system of corporate taxation in which income is taxed once at the corporate level and again at the shareholder level. Through a variety of mechanisms they have adopted systems of "integrating" the personal and individual income taxes so that the double taxation element is eliminated or radically lessened. This has occurred in Canada, the

United Kingdom, France, Germany, Japan, and Belgium. The European Economic Community is asking that all of its members adopt such a system. While the complexities of this subject are best left for another occasion, the point I am making does bear on the general question of whether the tax burden on our corporations is excessive and should be relieved in some degree.

The Need for Anti-Recession Stimulus.

The need for some form of stimulation must be apparent to every member of this Committee. The recession is already serious and it will get worse before it gets better. Our latest estimates indicate that the rate of unemployment should rise to approximately 8%. We continue to believe, in fact, that even in the absence of further stimulation the economy should bottom out in the middle months of the year and that we should begin a recovery phase thereafter. The temporary tax cut would be of significant help in making the recovery more solid and more certain. It would also help to reduce the unemployment rate from what it might otherwise be. Moreover, since we are likely to have a margin of slack in the economy for some time, taxes can be cut temporarily without seriously compromising our efforts against inflation. Under these circumstances, we should do what we can to strengthen the economy through a temporary reduction in taxes.

$16 Billion Temporary Anti-Recession Tax Cut.

In order to provide the needed economic stimulus, the President proposes a one-time, temporary tax reduction of $16 billion, to be placed in effect within the next 90 days. Making it temporary avoids building into the system the larger deficits that would later refuel inflation.

The temporary tax reduction will be an across-the-board refund or tax reduction for all taxpayers. The total of $16 billion is allotted $12 billion to individual taxpayers and $4 billion to business taxpayers, which is the same 3 to 1 ratio that individual income taxes bear to corporate income taxes.

Refund of 1974 Taxes to Individuals.

Individual taxpayers will receive a refund of 12% of their income taxes for 1974, with a maximum refund of $1,000 per tax return. The great majority of taxpayers would thus benefit in proportion to the income taxes they pay for 1974, but high-income individuals would not receive excessively large refunds.

Taxpayers are now filing their income tax returns for 1974 and nearly all will be filed by April 15. All taxpayers will continue to file their returns and pay income tax in accordance with present law. After their returns are filed, the Internal Revenue Service will calculate the amount of their refund, which will then be paid to them by checks in two equal installments.

I cannot emphasize too strongly the point that individuals should continue to file their tax returns in accordance with existing law. The sooner they do that, the sooner the system will be able to process their returns and mail their refunds. They should, under no circumstances, try to compute and deduct their own refunds. If they do, they will face possible fines and penalties and, at a minimum, an Internal Revenue Service examination of their return will probably be necessary to straighten out their final liability.

If, as requested by the President, the 12% refund is enacted by April 1, 1975:

- --refund checks for the first installment--in total about $6 billion--would begin to be mailed in May and would continue through June as the later filed returns are processed; and

- --refund checks for the second installment of the remaining $6 billion would be mailed in September.

The effect of the tax refund can be illustrated for a family of four as follows:

Adjusted Gross Income	Present Tax	Proposed Refund	Percent Saving
$ 5,000	$ 98	$ 12	-12.0%
7,000	402	48	-12.0
10,000	867	104	-12.0
12,500	1,261	151	-12.0
15,000	1,699	204	-12.0
20,000	2,660	319	-12.0
40,000	7,958	955	-12.0
50,000	11,465	1,000	- 8.7
60,000	15,460	1,000	- 6.5
100,000	33,340	1,000	- 3.0
200,000	85,620	1,000	- 1.2

Taxpayers with incomes of less than $15,000 now pay 31% of the income tax, and they will receive 36% of the refund. Eighty percent of the refund will go to taxpayers with less than $30,000 of income who pay 68% of the income tax. At the upper extreme, 24% of the income tax is paid by taxpayers with incomes in excess of $40,000. These taxpayers will receive only 11% of the refund.

Adjusted Gross Income Less Than:	Percent of 1974 Tax Liability Before Refund	Percent of Refund
$ 10,000	13.0%	15.1%
15,000	30.8	36.0
20,000	48.4	56.6
30,000	68.5	80.0
40,000	76.3	89.1
50,000	80.8	93.4
100,000	90.8	98.7

This proposed method of tax relief has the following advantages:

- Larger amounts can be returned faster by mailing refund checks based on 1974 taxes, than by reducing tax liabilities for the year 1975.

- A reduction in 1975 tax liabilities would be achieved through reductions in withholding. It would not occur for at least a month after enactment of the tax reduction and then only in relatively small weekly or biweekly amounts stretching all the way through December of this year.

- With a refund based on 1974 taxes, taxpayers will know more precisely the total reduction they will receive and can plan accordingly, thus accelerating the stimulative impact.

- Receipt of two relatively large refund checks should have a greater psychological effect on family budget decisions and consumption attitudes than receiving the same total a few dollars at a time, thus increasing the impact of the $12 billion temporary tax reduction. This should also help the sales of cars, furnishings and other big ticket items that have been depressed by the recession.

- With a refund based on 1974 taxes, taxpayers will be assured of getting the refund whether or not their incomes may be reduced or uncertain in 1975. Thus, taxpayers who had jobs in 1974 but are now unemployed would be assured of refunds; they would not receive such refunds if they were applied only to 1975 income.

- Paying the refund in two checks rather than one will ease the strains on the capital markets that would be caused by the Treasury's financing of the entire amount all at once.

Emergency 12% Investment Credit.

The remaining $4 billion of the total $16 billion temporary tax refund and reduction will go to corporations, farmers and other business firms in the form of a one-year increase in the investment tax credit. That should stimulate the demand for capital goods and help increase productivity and employment.

The investment tax credit would be increased temporarily to 12% for qualified machinery and equipment placed in service in 1975 or ordered by the end of 1975 and placed in service by the end of 1976. As under existing law, special rules apply to property constructed by the taxpayer or to his special order.

We propose that this increase in the investment credit be effective beginning January 1, 1975. That is extremely important, as we want businesses to move ahead promptly with new investment, and it would be most undesirable if they were to suspend purchases and orders until Congress has finally acted. For this reason, Congress has in the past adopted a retroactive effective date like that proposed, and based on our conversations with members of the tax writing committees we are confident that it will do so here, too, if the proposal for an increase is ultimately enacted.

Because of the need for speedy enactment and because this emergency increase in the rate of the investment tax credit is for only one year, no other changes or restructuring of the present investment tax credit are proposed at this time, except for utilities. Because of the particular plight of the Nation's regulated public utilities, we recommend that the following additional changes be made:

- The discrimination against public utilities, which under current law are allowed only a 4% investment credit, would be eliminated permanently. Under the temporary emergency investment tax credit, and thereafter, public utilities would receive the same general investment credit rate as other businesses.

- The provision of present law which limits the maximum credit to 50% of liability for tax in excess of $25,000 would be modified in the case of regulated public utilities. The limitation would be increased to 75% in 1975, and be reduced by 5 percentage points each year through 1979, returning to 50% in 1980.

The proposed 12% rate would be extended for two additional years, through 1977, for property, not fired by oil or gas, that provides power to electric generating facilities, including property converted from oil or gas use. This two-year extension will provide significant incentives for the development and use of nuclear, geothermal, coal, hydro, solar and other petroleum-saving power sources.

Increasing the rate of the investment tax credit has proved very helpful in reversing adverse economic trends. When the investment tax credit was repealed and other provisions increasing the tax burden on business were enacted in 1969, there followed a period of rising unemployment and business stagnation. Subsequent to the reenactment of the credit in 1971, new investment increased by 9% in 1972 and 13% in 1973. Further, in the period 1972-1973 industrial production increased 19% and there was a significant decline in unemployment.

Energy Taxes in General

The goal of the energy tax package is to reduce total consumption of oil and natural gas, which will reduce imports in like amount.

The package has three parts:

(1) An import fee increase ultimately settling at $2 per barrel on crude oil and products and a corresponding excise tax on domestic crude oil.

(2) Decontrol of crude oil prices and a Windfall Profits Tax.

(3) Price decontrol of new natural gas and the equivalent of the $2/bbl. oil excise tax (namely, 37 cents/thousand cubic feet) on all natural gas, to curtail its use and discourage switching from fuel oil to natural gas.

This combination of fees, taxes and decontrol will raise the prices of oil, and gas and related products relative to other prices. That will discourage their unnecessary use, encourage the substitution of other energy sources, and induce the replacement of existing energy-using devices.

Gasoline Tax as Alternative.

Many persons have suggested that a gasoline tax would be preferable to taxes on crude oil.

There are several reasons for preferring a tax on crude oil to a gasoline tax:

- A price increase in crude oil is far more effective in reducing consumption than a gasoline price increase. The increased prices under the proposals amount to about 10¢ per gallon, distributed across all of the products that come from a barrel of crude. It would take a gasoline tax of 45¢ to 50¢ per gallon to achieve the same reduction in consumption. There are two explanations for that. First, since the price of gasoline is higher than for other refinery products, a larger cents per gallon change is required to get the same percentage change. Second, gasoline accounts for only about 40% of the barrel of crude and a tax on only 40% must obviously be higher than a tax on 100%.

- With a 45¢ to 50¢ gasoline tax, gasoline prices would rise an aggregate of $45 billion. That compares with oil price increases of only $21 billion under the proposed program.

- Crude oil--not gasoline--is the problem. We want to reduce consumption of each of the elements in a barrel of crude.

- There is just as much opportunity to conserve other petroleum products and other forms of energy and energy intensive products as there is to conserve gasoline. For example, many thermostats could be turned down with no real discomfort. Our trash cans are heaped with direct petroleum products such as plastics, and other products that require large amounts of petroleum related energy to create, such as aluminum. We can conserve a little on a wide range of items and save a lot in total.

- It is fairer to let all petroleum users make a moderate adjustment than to impose a drastic increase on just gasoline users. And it is easier for the economy as a whole to accommodate a moderate, broadly distributed increase than a very large, more narrowly based increase. The proposals avoid devastating the automobile industry, the travel industry, and others which depend on gasoline for survival.

$2 License Fee and Excise.

The U.S. now imports about 4.1 million barrels per day of crude oil and about 2.6 million barrels per day of fuel oil and other refinery products. An additional import fee of $2 per barrel on crude and product is to be imposed in stages of $1 each on February 1 and March 1 by Presidential Proclamation under the authority of the Trade Expansion Act of 1962. In addition, if Congress has not enacted the excise tax on domestic oil by that time, the import fee will be raised another $1 on April 1, for a total increase of $3. Adjustments in the fees on imported products will be made to reflect obligations under the old entitlements program.

The $2 per barrel increase in the fee will raise the average price of imported crude oil and its products by $2 per barrel. In the case of crude oil, that means an increase from around $11 per barrel to $13 per barrel. Domestic crude would also sell at about $13 per barrel, and the excise tax of $2 would leave the effective price to domestic producers also at $11 per barrel.

The import fees will bring in revenues of $3.2 billion in 1975 and $4.1 billion in 1976 and the excise tax will raise $4.8 billion in 1975 and $7.2 billion in 1976.

Decontrol and Windfall Profits Tax.

Last year the United States produced 9.2 million barrels of crude oil per day. We now produce only about 8.8 million barrels of crude oil per day, approximately 60% of which, or 5.3 million barrels, sell at an average price of $5.25 per barrel because of price controls. If present controls continue, this year's production will decline further to perhaps 8.6 million barrels per day. Our system of price controls is seriously counterproductive to our need for greater domestic supplies.

An illustration of the way that price controls discourage production occurs in connection with the "stripper well" exemption, which permits oil produced from leases which average fewer than 10 barrels per day per well to sell at the world price. The exemption encourages producers to let their wells decline from 15 or 16 barrels a day to 9.9 barrels per day. They actually make money by suffering a production decline.

Another illustration arises in connection with secondary and tertiary recovery processes, which are used to stimulate additional production after original production has declined. Those processes are costly and part of our production decline is attributable to the fact that they are uneconomic at controlled prices. Money will not be invested to produce more controlled oil at \$5.25 per barrel if it can be invested in producing uncontrolled oil at \$11 per barrel, or in some completely unrelated business at a higher rate of return. Regulation of prices drives people out of the regulated business and into other lines of business not so subject to uncalculable, nonmarket risks. Price controls were imposed as a means of preventing windfall profits, but clearly we must find a more sensible approach.

The combination of price decontrol and the Windfall Profits Tax is a workable solution to the problem. In 1975, we estimate that a producer of controlled oil would receive \$11 per barrel after decontrol (net of the \$2 excise), or an increase in price of \$5.75 per barrel (\$11.00 - \$5.25 = \$5.75). The Windfall Profits Tax proposed would average \$4.53 per barrel, reducing the producer's net price increase to \$1.22 per barrel. That \$1.22 translates into about 76¢ per barrel after tax.

After decontrol, the price for all oil will be the same, thus eliminating all the inefficiencies of the two-tier pricing system. Producers of uncontrolled oil will begin to pay a windfall tax on the increased prices they have enjoyed for more than a year. As a result, they will pay \$2.81 per barrel more tax on those increased profits than they paid last year. Producers of controlled oil will begin to receive the same increased prices but will be permitted to keep only 76¢ of that increase. Both controlled and uncontrolled oil will receive the same prices and pay the same taxes.

	Uncontrolled Oil	Controlled Oil
Price per barrel	$11.00	$11.00
Former price	(11.00)	(5.25)
Net price increase	-0-	5.75
Windfall Profits Tax	(4.53)	(4.53)
Gain (loss)	(4.53)	1.22
Income tax at 38%*	1.72	(.46)
Net effect after tax	($ 2.81)	$ .76

*Corporate rate of 48% adjusted for percentage depletion and minimum tax.

Most significant producers have both controlled and uncontrolled oil and, compared with last year, they will net less on the uncontrolled oil and net more on the controlled oil. For the industry as a whole, net after-tax income will be reduced by $2 billion, which means that the benefits from decontrol will be more than offset--by $2 billion--by additional taxes paid to the Treasury. Those Treasury revenues are among those to be returned to taxpayers in the form of tax reductions.

The concept of the proposed Windfall Profits Tax is the same in general as the Windfall Profits Tax proposed last year, although the new proposal has been structured to raise substantially higher revenues. In summary, the tax is designed to capture a windfall profit--that is, one which results from a sudden change in price caused by a circumstance which is accidental and transitory. It is difficult to separate ordinary market prices from prices which permit windfall profits (or "excess" profits if one wishes to think of it that way). We have made an estimate--a judgment--as to the "long-term supply price," i.e., the minimum price to producers that will be sufficient to induce an increase in our supplies of oil sufficient to make us energy independent by 1985. Our judgment is that the price required for this is around $7 to $8 at today's price levels, assuming the continuation of percentage depletion. The tax is designed to permit producers to retain an amount equal to the long-term supply price by the time additional oil supplies will be coming on line three to five years from now.*

*If percentage depletion should be eliminated, the net to producers from a $7 to $8 price would be reduced, a higher price would be required to produce the same net return and the same oil production, and the proposed Windfall Profits Tax base and brackets would need to be revised upwards accordingly.

The proposal does not include a credit for so-called "plowback" investments, nor does it include exemptions for certain classes of producers. Plowback is not justified because the amounts oil producers will retain, after the tax as it is structured, will provide a price incentive sufficient to attain our energy independence goals. To put it another way, there is no convincing evidence that permitting a plowback credit will produce significantly more energy than not doing so. Further, a plowback credit means that persons already engaged in oil production can make investments with tax dollars supplied by the government, while new investors must use their own money. We do not believe that kind of discrimination and anti-competitive effect can be justified.

In the case of different classes of producers, we simply believe that a windfall produced by cartel prices is a windfall to large and small producers, high- and low-cost producers and producers located everywhere. Producers all receive a cartel price and not a free-market price.

The issue of plowbacks and special exemptions ultimately boils down to whether windfall profits should go to oil producers or to the public in the form of tax reductions. The permanent tax reductions proposed depend upon the government receiving these revenues. If the revenues are curtailed, the tax reductions will need to be curtailed, too. We have tried to design a tax that will not inhibit those investments in oil production which are economic and which are needed to reach our goals. If we believed that the tax would inhibit needed investment, we would not propose it. Plowback credits and special exemptions would undoubtedly make existing oil producers wealthier than they would otherwise be, but would not significantly increase oil production. It is taxpayers generally who pay the prices that produce the windfall, and the revenues should go for the benefit of taxpayers generally.

Decontrol of New Natural Gas and Excise Tax.

Natural gas shortages last year forced major curtailments of supplies to many industrial firms and denial of service to many new residential customers. Curtailments and denials are much greater this year and are causing not only extra costs and hardships, but, in many cases, business close-downs and loss of jobs.

New natural gas goes primarily into intrastate, uncontrolled markets where prices range around $1 per thousand cubic feet ("m.c.f."). Gas in the interstate market averages less than 40¢/m.c.f. The result is that interstate supplies are insufficient, and the energy gap in nonproducing states is made up with imported oil, which on a BTU equivalent basis costs about $2.00, and with imported liquefied natural gas at $1.80/m.c.f. Deregulation will permit new domestic gas to flow into the interstate markets with an aggregate savings to existing customers in those markets, an end to curtailments, and a net saving in national resources.

Whether or not new natural gas is deregulated, the President proposes an excise tax of 37¢/m.c.f. on natural gas. That is equivalent, on a BTU basis, to the proposed $2.00 excise tax on oil and will prevent fuel oil users from switching to gas. It will also bring the average interstate price close to the market clearing price (the price at which supply and demand will coincide), and end the careless use of this fuel by those for whom it is cheap at present prices.

An equivalent tax, based on BTU content, will also be placed on natural gas liquids. Gas wells produce about 86 percent "wet" gases and 14 percent "dry" gases. The wet gases are treated to remove the natural gas liquids, such as propane and butane, and the dry gas goes on into the natural gas pipeline. The dry gas and liquids will thus be treated consistently. For example, the tax on natural gas liquids sold in mixed stream would be $1.43 per barrel.

The liabilities for this tax would be $6.3 billion in calendar 1975 and $8.5 billion in calendar 1976.

Effectiveness of Energy Package.

The energy package will reduce consumption significantly, with modest adjustments by most of our citizens.

It is natural for businessmen and consumers to react to a sudden increase in price of particular goods with the thought: "This will merely increase my costs. It won't cause me to reduce my purchases." That reaction reflects the fact that we are creatures of habit. But we are also rational beings who adapt our habits to changing circumstances.

When meat prices rose sharply in the early months of 1973, the instantaneous response was a loud complaint as each of us found his grocery bill inflated. In time, we adjusted to the higher price by buying less meat. There is no doubt that the portions of meat being served by many families today are smaller than they were only three years ago. We didn't like it, but it had to be done. There was no other way to adjust to the new situation--no way that was better.

So it will be with energy. None of us relishes the prospect of higher oil and gas prices. We have all developed habits of energy use conditioned by two decades of declining relative prices of energy. As in the recent experience with meat, after the initial shock of resentment at the higher prices of petroleum products and gas, our rational selves will take over and we individually and collectively will find ways to reduce our useage of energy.

Immediately, we will slice smaller portions of the energy pie for ourselves:

- We will turn off the lights when we leave the room to save electricity bills.

- Thermostats will be adjusted downward in winter, upward in summer, and heat will be turned off in rooms not in use.

- Marginal trips in cars will not be taken; some second and third cars will be scrapped.

- Married couples will look closer-in for their first home, and possibly settle for an apartment instead of a detached home; and owners of homes and buildings who formerly considered the fuel savings from insulation, weather-stripping, and otherwise improving the thermal efficiency of structures too costly to obtain will now reconsider.

Equally important, over the longer run:

. Industrial firms, ever on the lookout to cut costs, will speed-up the replacement of energy-using machinery and processes that were perfectly adequate in the days when oil cost $3 a barrel and gas only a few cents per thousand cubic feet, with substitute equipment and processes that may have higher initial costs but which consume less energy and thus have lower over-all costs of operation.

. Families will replace their present autos featuring comfort and speed at the expense of low mileage with lighter and more utilitarian cars that use less of the now expensive energy; and they may eliminate some of their most frivolous appliances while replacing others with initially more costly but more energy-efficient substitutes.

. Materials which require large amounts of energy to produce will be displaced by substitute materials which have become relatively cheaper because their production consumes less energy.

. More recycling will occur.

. The higher relative cost of oil and gas as energy resources will stimulate the development of other energy sources. Oil and gas will fill a smaller share of energy requirements. Just as coal displaced wood as our basic energy source, and oil and gas displaced coal, oil and gas will be displaced.

All of these examples are illustrations of what in the technical jargon of economics is known as "price elasticity of demand": quantities of things consumed decrease when their prices rise <u>relatively</u> to other prices. Every food merchant knows he will sell more bananas and oranges when a crop failure causes the prices of apples and pears to be high, and vice-versa. He may not have heard the term "price elasticity," but he knows how it operates.

Yet many remain skeptical that there is price elasticity in the demand for oil, or that if there is any, whether it is sufficiently large to make any difference in the volume of our oil imports. Experience since 1973 should put doubt to rest even if the findings of such major research efforts as those of the Ford Foundation Energy Project and the Federal Energy Administration do not.

For example, during the decade prior to 1974 when utility rates were steady, consumption of electric energy increased at a rate of 7.4%. Normally, one would expect any given period in 1974 to be 7.4% higher than the comparable period of 1973. But for the six-month period April through September, 1974 consumption was not 7.4% above 1973, it was one percent less, a swing of 8.4 percentage points below expectation. Some of this reduction in consumption could be attributed to the then just perceptible slowing-down of the economy, but a major portion of the reduction can be attributed to the energy price effects on electric utility rates. Experience with oil demand and prices is similar. During the decade prior to 1974, total U.S. petroleum demand increased at an annual rate of just over 5%. But the April-September 1974 petroleum demand was under the comparable 1973 period by 2.7%, a swing of 7.7 percentage points below expectation.

We need another reduction in petroleum useage of about 5% in order to reduce consumption by a million barrels a day. All of the econometric data indicates that the proposed price changes are on target.

Econometric models of the economy, such as those underlying the Ford Foundation Energy Project report, A Time To Choose, and the Project Independence Report, suggest that the short-term responses to energy price increases that we have already seen are half, or less, of the long-term response we can expect after households and business firms have had an opportunity to adapt fully to the higher costs of energy.

Thus, we have confidence that the President's energy program will easily achieve the one million barrel reduction in consumption by the end of this year and an additional one million barrel reduction by 1977.

Permanent Tax Reduction and Restructuring.

The Treasury will collect an additional $30 billion in taxes from the windfall profits tax and the excise taxes and fees on oil and natural gas. The private sector will bear an estimated $25 billion of that in the form of higher costs of energy related items they buy, and Federal, state and local governments will bear the remainder.

The $25 billion paid by individuals and businesses will be returned to the economy by the permanent reductions in individual and corporate income taxes. Like the temporary anti-recession tax cut, the $25 billion total is divided in approximately the ratio of individual and corporate income tax payments generally, so that about $19 billion is allocated to individuals and $6 billion to corporations.

These are major income tax reductions. They accomplish multiple purposes, rest on multiple foundations, and should be considered in that way.

First, the changes proposed in the individual and corporate income tax structures are desirable on their own merits. They have heretofore been too expensive to accomplish within existing revenue constraints.

Second, these tax reductions return to the economy the energy conservation taxes. Thus, the energy conservation measures reduce energy consumption without reducing the aggregate purchasing capacity of the private economy.

Third, these income tax reductions will provide energy consumers with additional after-tax spendable income to help meet higher energy costs if they still wish to consume the same amount of energy as before. Alternatively, they can buy more of other products and cut back on their energy consumption--and many will do that. The income tax reductions are such that most individuals in the lower and middle income range, up to about $15,000, will receive tax reductions greater than their increased energy costs even if they should choose to continue consuming the same amount of higher-cost energy. Taxpayers in higher income brackets will receive significant income tax reductions also, but generally less in proportion to their greater expenditures for energy.

Fourth, these permanent income tax reductions are approximately similar to what is required to offset the so-called "bracket and deduction compression" caused by inflation over the last three years. Because deductions and rate brackets are stated in dollar terms, when inflation causes money incomes to rise, deductions offset a lesser portion of the same real incomes and the remainder is taxable in higher brackets.

Benefit for Individuals.

For individuals, the President proposes an income tax reduction of $16-1/2 billion beginning in 1975. This will be accomplished--

. By increasing the Low Income Allowance from its present level of $1,300, to $2,600 for a couple and $2,000 for single taxpayers, which will provide benefits of------------------------ $5 billion

. And by cutting in half, from 14 to 7%, the tax rate for the first taxable income bracket and making substantial, but smaller, reductions in tax rates in the next four brackets,1/ which will provide additional benefits of------- $11-1/2 billion

Low Income Allowance.

The Low Income Allowance is the minimum standard deduction allowed to everyone regardless of his income level or the amount of deductions he actually has. In combination with the $750 personal exemption, the Low Income Allowance determines the minimum or base income on which no income tax is levied. In 1969, Congress defined the threshold taxability level by reference to so-called "poverty level" data, the assumption being that families with "poverty level" incomes did not have the requisite ability to pay and should be excused from liability. The Low Income Allowance was the mechanism adopted to achieve that result.

The Low Income Allowance is now $1,300. That means that a family of four with four $750 personal exemptions for a total of $3,000, plus a $1,300 Low Income Allowance, currently does not pay income tax if its income is $4,300 or less.

1/ Illustrates rate changes for married persons filing jointly. Comparable changes are made in other rate schedules.

Because of inflation, the poverty level for a family of four is now estimated to be about $5,600. Nevertheless, under present law, this family would in 1975 be required to pay income tax of $185.

The proposed increase of the Low-Income Allowance to $2,600 on a joint return will bring the nontaxable level for the family of four up to the new poverty level of $5,600, which is $3,000 of personal exemptions plus the new Low-Income Allowance of $2,600. The proposed increase in the Low-Income Allowance will also make comparable changes for single persons and families of other sizes, as shown by the following table.

No. in the Family	Estimated 1975 Poverty Level	Tax-Free Income Level Present	Proposed
1	$2,850	$2,050	$2,750
2	3,686	2,800	4,100
3	4,382	3,550	4,850
4	5,608	4,300	5,600
5	6,618	5,050	6,350
6	7,446	5,800	7,100

Increasing the Low-Income Allowance to the levels proposed will provide benefits of about $5 billion to low-income taxpayers and relieve from income tax altogether over 5 million presently taxable returns.

Reduction of Tax Rates.

In addition to the change in the Low-Income Allowance, which benefits the lower income taxpayers, the proposals will reduce income tax rates for the 62 million remaining taxpayers in a generally progressive manner.

The present income tax rates for married persons filing jointly would be reduced as follows: The 14% rate reduced to 7%; the 15% rate reduced to 10%; the 16% rate reduced to 13%; the 17% rate reduced to 15%; and the 19% rate reduced to 17% for part of the present bracket and the balance of that bracket to remain at 19%. Rates for other income brackets would remain the same, except that the present 28% and 32% rates would be increased 1 percentage point each. Taxpayers with incomes falling in those brackets would still have a substantial net reduction in liability because a part of their income will also be taxed in the brackets in which rates have been reduced. Comparable reductions will be made in the tax rates for single returns and other types of returns also. The revised rate schedules are set forth in the appendix.

Progressive Income Tax Reduction.

The effect of the two elements of the proposed income tax reduction for individuals, both singly and in combination, is progressive. The proposed tax reductions are proportionately greater in both dollar amounts and percentages toward the lower end of the income spectrum. Nevertheless, taxpayers at all income levels share significantly in the proposed reductions.

The benefits from doubling the Low-Income Allowance are heavily concentrated in the adjusted gross income classes below $5,000, $10,000 and $15,000. The benefit of the reduction in tax rates goes 96% to persons with adjusted gross incomes below $20,000 and 89% to those below $15,000. When the two tax reductions are combined, 41% goes to persons with adjusted gross incomes below $10,000, 70% to persons with adjusted gross incomes below $15,000 and 86% to those below $20,000.

The following table shows the percentage reduction in the income tax by income class:

1975 Levels

Adjusted Gross Income Class ($000)	Income Tax Paid Under Present Law ($ billions)	Amount of Income Tax Reduction ($ billions)	Percentage Reduction in Income Tax
0 - 3	$ 0.3	$- 0.25	-83.3%
3 - 5	1.8	- 1.20	-66.7
5 - 7	4.0	- 1.96	-49.0
7 - 10	8.9	- 3.38	-38.0
10 - 15	21.9	- 4.72	-21.6
15 - 20	22.8	- 2.70	-11.8
20 - 50	44.4	- 2.15	- 4.8
50 - 100	13.5	- 0.11	- 0.8
100 and over	13.3	- 0.03	- 0.2
Total	130.9	-16.50*	-12.6

*Does not include payments to nontaxpayers.

Some have suggested that there is no reason to cut taxes at all for upper bracket taxpayers. We believe, however, that fairness requires some--though lesser--relief in the upper brackets. It is important to remember that:

. Only about 12% of all taxpayers have gross incomes above $20,000, and they now pay about 52% of total individual income taxes. They will pay an even higher percentage of individual income taxes if our proposals are enacted.

. Upper income individuals have been adversely affected by inflation, just as lower income individuals. The prices of the things they buy have increased too, and since they buy more, the increase is greater. Also, "bracket and deduction compression" has adversely affected high-income taxpayers just as it has affected lower income taxpayers. Everybody has had, in effect, an income tax increase because of inflation.

. Upper income taxpayers play a disproportionately large role in providing the investments which help everyone's income to increase.

The following table illustrates the tax reductions that will be received by a typical family of four at various income levels.

Adjusted Gross Income	Present Tax 1/	New Tax	Tax Saving	Percent Saving
$ 5,600	$ 185	$ 0	$185	100.0%
7,000	402	110	292	72.6
10,000	867	518	349	40.3
12,500	1,261	961	300	23.8
15,000	1,699	1,478	221	13.0
20,000	2,660	2,450	210	7.9
30,000	4,988	4,837	151	3.0
40,000	7,958	7,828	130	1.6

1/ Calculated assuming Low-Income Allowance or itemized deductions equal to 17% of income, whichever is greater.

Increased Energy Costs Compared with Tax Reductions.

The proposed changes in the structure of the individual income tax stand on their own merits and were not designed primarily to offset increased energy costs.

Solving the oil problem will require the public, and particularly large energy users, to make adjustments that will be unpopular and which in some cases will cost money. Nonetheless, the proposed tax reductions are very substantial for low and middle income taxpayers below the $15,000 income level and we believe are, on average, sufficient to more than offset the average increases in their energy costs. The Council of Economic Advisers has calculated that the increase in the Consumer Price Index attributable to this program will be 2% or less. Others have suggested different percentages.

The following table provides some guidance, by indicating how much the tax reductions add to after-tax disposable income. It is after tax income which individuals have at their disposal to buy goods and services, including energy. If the cost of living goes up 1%, a 1% increase in after-tax income should leave the average taxpayer even. The table indicates that with a rise in prices of 2% or less, average taxpayers through the $15,000 AGI class will be ahead.

Adjusted Gross Income Class	After-tax Income	Proposed Tax Reduction	Reduction as a Percent of Present After-tax Income
($000)	(.........Billions......)		(.....Percent.....)
0 - 3	21.7	0.3	1.2 1/
3 - 5	33.2	1.2	3.6 1/
5 - 7	46.0	2.0	4.2
7 - 10	86.1	3.4	3.9
10 - 15	183.1	4.7	2.6
15 - 20	162.2	2.7	1.7
20 - 50	235.6	2.2	0.9
50 - 100	36.5	0.1	0.3
100 and over	21.7	*	0.1
Total	826.1	16.5	2.0

*Less than 50 million

1/ Many taxpayers in the two lowest income classes will benefit from the $80 special distribution.

$2 Billion for Payments to Nontaxpayers.

Individuals whose incomes are so low that they do not pay any income tax will not benefit from the income tax reductions. Because of their low incomes, these persons are likely to have the least flexibility in shifting their consumption patterns as energy becomes relatively more costly.

In order to avoid hardships from higher energy costs, an additional $2 billion of the energy tax revenues has been allocated to provide cash payments of $80 to each adult in this low income, nontaxpayer category. These persons will thus not be forced to reduce their energy consumption, although they, like others, will have the choice. In addition, very low income persons who now pay some income tax and who will receive some benefit from the proposed tax reductions will also be eligible to receive distributions in amounts approximately sufficient, when added to the income tax reduction, to give them a total benefit of about $80 per adult. In total, this payment system is estimated to involve about 26 million adults, 21 million of whom are nontaxpayers under present law, and to provide a total benefit to them of about $2 billion.

Payments will be made as early in 1975 as possible, and if the energy taxes are enacted by April 1st, as the President requests, we believe that payments can be made in the summer. The payments will be made by the Internal Revenue Service and will be based on a return--comparable to a very simple income tax return--filed by those persons eligible. In designing this system for payments, emphasis has been placed on making it simple and speedy. While we should be generous in order to be certain that we have avoided genuine hardships, we should not create an additional welfare system or bureaucracy.

The essential details of this system for cash payments are as follows:

- Adults 18 years or older and not eligible to be claimed as a dependent on an income tax return would file with the Internal Revenue Service a simple income tax return showing their name, social security number and their adjusted gross income for 1974.

. Adults are eligible to file and receive a payment if they are married persons filing a joint return and their adjusted gross income is less than $5,500 and if they are single persons and their adjusted gross income is less than $2,750.

To take account of the fact that some persons eligible for payments will also receive income tax reduction, payments will be made under the following schedule:

<u>For Married Persons Filing Joint Returns</u>

If their income is $4,500 or less,
the payment is------------------------ $160

If their income is more than $4,500,
the payment is reduced by $4 for every
$25 of income over $4,500

<u>For Single Returns</u>

If their income is $2,250 or less
the payment is------------------------ $ 80

If their income is more than $2,250,
the payment is reduced by $4 for
every $25 of income over $2,250

This schedule of payments will result in phasing-out the payments as income rises to the level where the amount of income tax reductions that have been received equal $80, or $160 on a joint return. For example, a married couple with two children and income of $5,600 would have received $185 of income tax reduction and would therefore receive no additional cash payment.

Because the payment system is simple and distinguishes only between single returns and joint returns, there cannot be complete precision and some persons will receive payments which, when combined with income tax reductions, will vary somewhat from the $80 per adult minimum. Imprecision is the price of simplicity. Precision can be obtained only with returns that report the number of personal exemptions and itemized deductions--i.e., a full tax return. Exemptions and deductions are major problems, even with higher income persons, and, as a practical matter, would be unpoliceable on these returns. The $80 per adult minimum is an average and somewhat arbitrary (though generous) figure in the first instance, and it would be quixotic to construct a second and complicated tax system to see that no family, regardless of size or need, varied slightly from the figure.

The amount of $80 per adult appears adequate to compensate individuals in these low-income classes generally, with a margin for extraordinary situations. The total increase in energy cost for the households represented by the about 26 million adults who will participate in the $80 payment system is estimated to be $1.3 billion, an average of $50 per adult. This group includes 17 million single adults and 9 million married persons who would file jointly. Thus, the average increase in energy cost per filing unit, or roughly speaking, "household," in this category is about $60. Looked at another way, the increase in energy cost may induce an increase in the Consumer Price Index of as much as 2%. A 2% increase for a person with $2,000 income would be only $40, and for a family with an income of $5,000 would be only $100.

In contrast, total benefits of $2.1 billion are proposed for this group by the combination of cash payments and income tax reductions. The basic benefit will be $80 for a single adult and $160 for a married couple.

In addition there are another 7 million adults whose adjusted gross incomes are below $5,000, but who will receive $80 or more entirely through income tax reductions.

Residential Conservation Tax Credit.

To complete the total of $19 billion of tax and cash payment benefits for individuals, a residential conservation tax credit will be allowed for expenditures for thermal efficiency improvements for existing homes. Such improvements include storm windows and doors, and insulation and weather-stripping. The credit will be effective for years 1975, 1976 and 1977 and the maximum credit allowed over that three-year period will be $150 per family. It is estimated that at least 18 million homes will be eligible for the credit and that the total credits will be $500 million annually for the three years.

Corporate Tax Rate Adjustment.

The President proposes that the corporate tax rate, which is now 48%, be reduced to 42%. This will provide benefits of approximately $6 billion. This reduction will be accomplished by reducing the corporate surtax rate on taxable income in excess of $25,000 from the present 26% to 20%. The basic or normal rate applicable to all corporate taxable income will remain at the present 22%. Thus, the first $25,000 of a corporation's taxable income will continue to be taxed at a rate of 22%. The balance will be taxed at a total normal and surtax rate of 42%. We propose that the reduction be made in the high surtax rate because that is where the excessively heavy double tax burden on corporate earnings falls. Corporations that pay only the normal tax rate of 22% are paying tax at about the average top marginal tax rate of individuals.

The reasons for recommending reduction in corporate taxes by means of a rate reduction instead of by some other means are as follows:

Rate reduction is the most neutral way of reducing corporate taxes. Neutrality means that all corporations now paying at a 48% rate will share in the tax reduction, will have maximum flexibility in making business and investment decisions, and can therefore operate most efficiently without regard to tax consequences.

Reduction of the presently high corporate tax rate will be the most meaningful and symbolic signal to business, to investors and to the market of a serious intent to assist business. This type of tax reduction will provide corporations the maximum assurance of continued more favorable climate for the long-term investment decisions that are necessary to ensure prosperity and control inflation.

Rate reduction has a character of permanence. We have proposed to make the permanent tax reduction for individuals in large part by rate reduction. We should do the same for corporations.

The amount of the proposed corporate tax reduction of about $6 billion is approximately the 25 percent corporate share--when divided in the 75%-25% ratio of corporate and individual tax payments--of the total of $25 billion of permanent tax reductions and payments we propose to make. This proposed corporate tax reduction of $6 billion reflects the fact that corporations, too, will have an additional burden from higher energy costs. Corporations will bear these additional costs in a variety of ways--higher energy costs reflected in costs of equipment they buy, not all of which they will be able to pass on to consumers; reduced sales and lower prices for some products as demand for energy is reduced; and the additional capital equipment and other costs that will be involved for many corporations in shifting over to lesser energy using processes and products.

As their energy costs increase, business will be under pressure to pass these costs through to consumers and they will be successful in varying degrees. To the extent that this increase in cost is offset by a decrease in income tax cost, a part of that pressure to pass through energy costs to consumers will be relieved.

Corporate tax reduction is seldom politically popular, because it is levied against an inanimate entity. But corporate taxes are borne by people--in part by people generally in the cost of what they buy from corporations, and in part by shareholders in the form of a reduced return on the capital they have invested in the businesses.

In recent years other nations, including our principal trading partners, have recognized this and adopted various "integration" plans which move towards eliminating the double tax on income earned in corporate form. But the United States still imposes a double tax on income earned from a business conducted in corporate form, thus taxing that income more heavily than other income.

As you consider the President's proposal to reduce the corporate rate from 48% to 42%, you should have firmly in mind that income earned in a corporation would still be taxed at 42%, and then taxed again at rates going up to 70% when paid out as a dividend--producing a maximum tax of 82.6%.

I have already discussed the compelling reasons for a reduction in corporate taxes wholly apart from any increase in energy costs. These reasons are real and serious. While corporate tax reduction may be unpopular, the consequences of increasing unemployment and declining productivity will be even more unpopular. They already are.

Conclusion.

It is clear that our country faces serious economic problems. I am confident that we can solve them. They are complicated problems and their solutions will require painstaking attention and balanced judgments. The President's program, which I have outlined to you, provides an integrated blueprint for action. I am confident that as we consider the problems in the objective and professional manner for which this Committee is distinguished, we will be able to reach joint decisions that will set us back on the path to continued prosperity. I look forward to working with you.

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

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FOR IMMEDIATE RELEASE January 21, 1975

TREASURY ANNOUNCES TENTATIVE MODIFICATION
OF DUMPING FINDING ON TUNERS
(OF THE TYPE USED IN CONSUMER ELECTRONIC PRODUCTS) FROM JAPAN

Assistant Secretary of the Treasury, David R. Macdonald announced today a tentative determination to modify the dumping finding on tuners (of the type used in consumer electronic products) from Japan with respect to Victor Company of Japan. Notice of this decision will be published in the Federal Register of January 22, 1975.

The Federal Register notice reads in part:

> After due investigation, it has been determined, tentatively, that tuners (of the type used in consumer electronic products) exported by Victor Company of Japan, Ltd. are not being, nor are likely to be, sold in the United States at less than fair value within the meaning of the Antidumping Act, 1921, as amended. The investigation indicated that no sales have been made at less than fair value by the above firm since the finding of dumping, and assurances have been given that future sales of such tuners to the United States will not be made at less than fair value.

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 through July 1974, imports of tuners from Japan were valued at roughly $6 million.

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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
726 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20506

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EMBARGOED UNTIL NOON EST
Tuesday, January 21, 1975

FOR INFORMATION CALL:
(202) 456-6757

Remarks by Albert Rees, Director
Council on Wage and Price Stability
before the National Economists Club
Washington, D.C.
January 21, 1975

It is a great pleasure to speak again to this congenial group. When I was here last, I discussed wage stabilization in the construction industry. My topic today is related, but much broader in scope.

Incomes policy, as you all know, encompasses a wide range of things that government can do to influence the movement of wages and prices, from the gentlest persuasion to the most draconian controls. We have had policies in 1974 that spanned much of that range. In the first four months of last year, the Economic Stabilization Act of 1970 as amended was still in effect. Dr. Dunlop, the Director of the Cost of Living Council, was gradually decontrolling the economy on a sector-by-sector basis because controls were becoming increasingly burdensome to business and labor, and were in many cases distorting the allocation of resources. In return for decontrol, he secured commitments from many industries to stabilize some prices voluntarily for stipulated periods, and to work toward greater output, improved productivity, and more rational collective bargaining structures.

Before the expiration of the Economic Stabilization Act, the administration requested an extension in a much modified form. The Cost of Living Council would have devoted itself largely to monitoring wage and price movements, with authority to maintain controls in only two industries, construction and health care.

This proposal was vigorously opposed by business and labor organizations and received little support in Congress. On April 30th, all control authority expired except for that of the Federal Energy Administration to control the prices of petroleum products.

In the following months prices and wages continued to rise, in some cases at accelerated rates. The increase in the Wholesale Price Index reached an annual rate of 32.1 percent in the third quarter of 1974. Average hourly compensation rose at a rate of 11.0 percent in the third quarter,

(more)

though real hourly compensation continued to fall. Some, but not all, of these increases in wages and prices represented a restoration of wage and price relationships compressed or distorted during the control period.

On August 12, 1974, President Ford asked Congress to create the Council on Wage and Price Stability. Acting with unusual speed, the Congress passed the legislation as requested, and the President signed it into law within twelve days. Public Law 93-387, the Council on Wage and Price Stability Act, does not give the Council any authority to control wages or prices. It does direct the Council to monitor wages and prices, to hold public hearings, and to review those activities of government that contribute to inflation.

On September 28th, I was appointed Director of the Council and began to assemble a staff. We now have a staff of more than thirty, and will reach our authorized strength of forty within a month. We have been fortunate enough to attract such able economists as James Blum, Arnold Collery, George Eads, Harold Barnett, and Peter Henle to assist in our efforts.

In November, the Council held hearings on the causes of the high price of sugar. It worked to persuade consumers to cut their sugar consumption, and to persuade food producers and distributors to promote sugar-free products. Since then the price of sugar, though still much too high, has fallen considerably. Consumer resistence, which we helped to mobilize, brought about this decline.

In December, three major steel companies raised prices on many of their products and we were able to persuade them to roll back about one-fifth of these increases. The balance of the increases is justified by higher costs of labor and raw materials. The price increases subsequently announced by other steel companies were much smaller in amount, and fell within the limits set by the rollbacks. This action saved users of steel an amount well in excess of 100 million dollars a year.

In my opinion, the steel experience indicates that a voluntary incomes policy can work. We have been called a "toothless tiger" and a "90-pound weakling" in the press because we lack statutory authority to control prices and wages. These colorful names seriously underestimate the power of the President of the United States--not just President Ford, but any President--to persuade people to act in the public interest.

What will the Council be doing in 1975? We are broadening our activities on several fronts. We are continuing to monitor steel and sugar prices. We are beginning a systematic review of pricing in the concentrated industries, and will extend our monitoring activities to several of them, beginning this week with the aluminum industry.

Circumstances have changed greatly in the few months since we began our activities. The economy is now in a severe recession. Price increases

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are moderating, and many prices are beginning to fall. The seasonally adjusted Wholesale Price Index for December fell for the first time in fourteen months. We need no longer confine ourselves to the routine question posed by price controls, "How do you justify your price increases in terms of costs?" We can begin to ask, "How do you justify your price increases in terms of the demand for your products?" and even, "Why aren't your prices coming down?"

In recent weeks, the three major automobile producers have offered substantial cash rebates to encourage the sale of their products. More firms should follow this excellent example, or do better yet, and cut the list prices of their products.

The nature of the inflationary process has changed in 1975. It no longer reflects current excess demand and widespread commodity shortages. The leading elements in the process are now the rising price of energy and rising unit labor costs, caused by continuing substantial wage increases and the decline in output per man hour.

The Council on Wage and Price Stability is beginning to extend its monitoring activities to wage negotiations and is prepared to enter into discussions with the parties to collective bargaining where this seems appropriate. Last week the Chicago District Council of the Laborers International Union notified construction contractors that it would extend its current agreements with them without a wage increase until June 1, 1976. Of course, it isn't entirely good news when wages cannot keep up with the cost of living, but this unusual action correctly reflects the view that in this recession jobs are even more important than wages. Other unions seem less aware of the change in the economic climate. A union that strikes in January to achieve parity with what a sister union gained last May has not adjusted its thinking to the realities of our present grave economic situation. The same wage restraint that is appropriate in collective bargaining is also appropriate for the government as an employer, as President Ford indicated in the State of the Union message.

The Council on Wage and Price Stability is also beginning to intervene before regulatory agencies in the interests of holding down costs and prices. On January 13, we submitted our written comments to the Interstate Commerce Commission in the matter of commission policy regarding parent-subsidiary transportation. In so doing, we are seeking to reduce empty backhauls by private motor carriers. We are right now actively considering intervening with the Federal Communications Commission in the interestate tariff filing by the American Telephone and Telegraph Company, which would increase many long distance telephone rates.

On November 27, 1974, President Ford issued an executive order requiring inflation impact statements for all major proposals for legislation and promulgation of regulations and rules by the Executive Branch. Together with the Office of Management and Budget, the Council on Wage and Price

(more)

Stability will review these inflation impact statements to see whether proposed regulations and rules that raise costs and prices are clearly justified by the larger social benefits.

I have been talking about what will be done in 1975 under existing law. However, as all of you know, proposals to amend or replace the Council on Wage and Price Stability Act are being made in Congress. Several bills of this sort were introduced in the last Congress. Some of these are being reintroduced, together with new ones.

The Administration, myself included, is firmly opposed to bills that would restore general wage and price controls, and any such bill, if passed, would undoubtedly be vetoed by the President. Not only are general controls not needed, but the threat of them is creating widespread fear and counter-productive behavior in business and labor organizations. Unions are afraid to moderate their wage demands and businesses are afraid to lower their prices for fear that they will be frozen into an unfavorable position by new control legislation.

Some of the legislative proposals are so recent that we have had little time to study them. Some would give the Council subpeona power, some would give it added resources, and some would give it power to delay wage and price increases for 60 days. While these proposed powers are preferable to general controls, some raise serious questions. If delay power were to be used routinely, it might displace price and wage increases forward in time, and price increases would be announced in anticipation of cost increases. Moreover, routine use of delay powers would create onerous reporting burdens for companies and unions. Many wage agreements are reached as settlements of strikes. If their implementation were delayed 60 days, would the strikers return to work?, or would the proposed procedure prolong industrial strife? These are serious questions that deserve careful thought.

We are committed to an active voluntary incomes policy in 1975. We hope very much that it can be a flexible one, that will not recreate some of the problems that Congress was so anxious to be rid of less than a year ago.

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Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041
NEWS
THE DEPARTMENT OF THE TREASURY 1789

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January 21, 1975

MEMORANDUM TO THE TREASURY STAFF

For your information and guidance, we have produced the transcript of the remarks made by Secretary William E. Simon at a Treasury Department Press Conference held on January 16, 1975.

Office of Public Affairs

Attachment

9:30 a.m., January 16, 1975

SECRETARY SIMON:

I am going to be here only briefly. This week I have had very important negotiations going on at the International Monetary Fund, which will carry me through tomorrow, and attempting to change constantly from a domestic hat to an international hat has been a bit of a problem.

I thought it important that we call this briefing this morning so you could talk to Ed Fiedler and Fred Hickman, our Assistant Secretary for Economic Policy and Assistant Secretary for Tax Policy, respectively, about the President's State of the Union proposals.

These form a truly integrated and comprehensive program that has to be taken as a unit. And as with all such units it is not a fruit basket from which people can pick and choose the parts they like and forget the rest. For instance, we all know that everybody loves a tax cut; nobody likes a tax increase. So we are going to work terribly hard with the Congress to have it enacted as a package.

At the outset, I think I ought to talk for a second about the direction or thrust of the President's program. Philosophy is a word I don't particularly like because I prefer to live and deal in the real world.

It will take more time than this Administration has to move away from the massive government control of many years, and to better utilize the marketplace. But we must make a start.

You can go two routes: either to more government controls -- or you can take the route of the marketplace, with decision-making being given back to the American people and with less encroachment by the Federal government.

The government today has 33 percent of our Gross National Product. It is growing at what the President and I consider alarming proportions. Before the turn of the century, it will certainly be over 50 percent, which would effectively end the system of free enterprise that we have had in this country -- and which has provided the highest standards of living and the greatest prosperity on earth.

I recognize that there are people who think it's a good idea to have more government, that government is more capable of making decisions for America.

Well, I am sorry; this not a philosophy that this Administration, or our President, or I can abide in.

When I talk about freedom, that is not just an idle term. It means you are free to do what you wish to do, and this great freedom is inextricably linked with economic freedom. If the government takes away your economic freedom, your social and political freedoms will not be far behind.

That is a brief overview of the way we approach the problem and the two routes we could travel. People say rationing is equitable -- but I wish you could have had the benefit of sitting with me when we designed the various rationing programs a year ago this time.

Anyone who thinks a program of rationing in this very complex economy is equitable ought to think it through very carefully. Especially should he think about government decision-making and the government employees who will make the decisions down here not only about how you drive to work each day and what you are allowed to do, but whether you are allowed to open a business, how much fuel will be allocated and the political pressures that spring up as to the decisions by government.

I don't think that is the way our economy should be run.

Anyway, I can go on with this subject at great length, and I realize today in many quarters what I say is pretty unpopular stuff; but it is something I very deeply believe in and I guess we will be debating with Congress over coming days the more controversial aspects of our program.

As I said, I have been deeply involved with the IMF Ministers night and day all week, and I will be again today and tomorrow. However, I intend to make myself available to the press in the days and weeks ahead on quite a few occasions because, as we work through the legislative process, there are going to be lots of questions that are going to be asked, and we want to be as responsive to these questions as we can.

This program that the President announced on Monday and yesterday involved some painful decisions for the President because he, like other members of his economic team, is a firm believer in fiscal discipline.

Yet as the leader of all our people, our President knew that millions of Americans were suffering under the present economic circumstances -- and, therefore, that some measures were required that involved a shift of emphasis.

It is a measure of his capacity as a leader in this country that he had the courage to chart a new course and a new emphasis in the direction of his policy. It also ought to be reassuring for this country to know that when we pull out of the recession, which surely we are going to, that we have a man of his philosophy at the helm, for he personally understands what is necessary in the long run to rebuild the foundations of our economy.

I just want to make one thing clear this morning, and that is that this Administration is fully behind our President; we are united in his proposals, and we believe the American people will unite behind him as well.

Three weeks ago we heard a lot of critics who said we were still fighting inflation at the cost of unemployment and recession, and now we are hearing that we are fighting unemployment at the expense of inflation.

I must admit that I feel both views are rather off the mark.

The President continues to fight inflation and recession because they are both part of the same disease, as we have said over and over again.

Obviously, pressures have been put on the price structure throughout our economy. Prices are declining and competition is reasserting itself. The inflation rate is beginning to decline.

There has been a change, obviously, in our policy. This change, as I stress, is a change in emphasis. We are significantly stepping up the battle against recession because our economy is sliding downhill more rapidly than we expected two months ago.

Consumer confidence, which is a fragile thing, can never be predicted by anyone -- not that anyone can predict many other events, either. But this is especially difficult to do, and consumer confidence has been shattered in this country by a combination of factors -- most recently, I believe, by the frightening double-digit inflation we have experienced during this year.

The important thing to understand is that we are not abandoning our long-run battle against inflation.

As you were told in the briefings yesterday, we do expect some slight increase in inflation as a result of the President's programs on the energy side -- approximately two percentage points in the Consumer Price Index.

While the cost of these actions is higher than we would like, we believe the cost of inaction in terms of unemployment and hardship would be much higher.

I think these programs are bold, but I don't believe they are reckless. They are the right medicine at the right time for the right reasons.

Let's emphasize one thing: economic policy does not get put into place like concrete. I think there is some confusion in the country today that when the President puts out a proposal, that this is what it will be for all time, and that is going to solve the problem and then we can all get back to work again.

Economic policy is an ever-evolving mechanism -- one that requires change to match changing circumstances. As changes and events occur that no one can predict at this time, so shifts in our policy reflect our responses to these changes.

In lifting our country out of the doldrums, we have attempted to be extremely careful to avoid actions which would set off another inflationary spiral. That is why we have placed heavy emphasis on limiting the tax cut to just one year and, most importantly, on putting a mandatory ceiling on new spending programs.

We <u>must</u> stop the explosive growth of federal spending in this country. Both of these actions -- the one-year moratorium on new spending programs and the absolute spending limit with the exception of any energy proposals that would cost money -- are imperative in order to keep a lid on prices.

I said a week ago that the President's program would be tough and comprehensive and effective. We believe that is exactly what it is, and will prove out to be,if we give it a chance.

As I say, this program is not a fruit basket. It is a cocktail, and it should be taken in its entirety. At the same time I recognize that we do go through a democratic process of debate which I will start in the House Ways and Means Committee next week on the Hill -- where we will be going to discuss not only our tax proposals but also a debt ceiling increase request.

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I think as we approach the financial aspects of this problem with the Congress, they will understand the magnitude of the problem and see the wisdom, as I believe the American people will see the wisdom, that we have to get this crazy government spending under control once and for all -- and the time to start is right now.

I have about three minutes and I will assure you that I will be back next week to talk to you again. And if you have any special requests, you can get in touch with Jim Sites and I will be as available as I have always tried to be within the limits other duties place on me.

QUESTION:

As you know, there have been a good many published stories in recent days that you are on the way out.

Can you tell us what your status is, and are you still the Administration's chief economic spokesman?

SECRETARY SIMON:

I am the chief economic spokesman and Chairman of the Economic Policy Board. If I am on my way out, I have not been told that, nor have I submitted my resignation.

I have said that I am serving at the pleasure of the President and I intend to continue to do that.

QUESTION:

Do you have any intention of resigning?

SECRETARY SIMON:

No, sir.

QUESTION:

Do you know the origin of these stories?

SECRETARY SIMON:

No, I don't. I think I have learned a great deal since I have been in government and I will go home a wiser man in many respects, but the one thing I am absolutely positive that I will not know when I go home is who "the White House source" is that everyone cites.

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QUESTION:

Mr. Simon, does the size of the projected deficit in the President's budget concern you?

SECRETARY SIMON:

I would say the size of the deficit horrifies me. I think that is a problem. What you have to do is take a look at the origin of the deficit. It is induced through the recession, which causes the Treasury revenues to drop, and through certain programs such as public service employment that are necessary during the recessionary period to take care of those that bear the disproportionate burden of our battle against inflation and recession; it also reflects most importantly the growth in federal spending that is automatic year after year, as illustrated by the $4.7 billion plan of deferrals and recisions the President sent to Congress before they went home in December.

That is $4.7 billion this fiscal year, but it becomes $7 billion next fiscal year -- and judging by any past standards on what Congressional action would be, it could later become 10, 12, 15, 20 billion; it just gets locked into a spiral which is alarming.

That is why 75 percent of our expenditures in our budget today are so-called "uncontrollables." Yet, as I have often said, I don't buy this uncontrollable business because nothing is uncontrollable. Admittedly, it takes legislation to change this.

We have to form this partnership with the Congress, and that is what we would be attempting to do to begin to change and re-order some of the priorities.

We cannot continue to promise the American people absolute instant prosperity in every single sector in the magnitude that we have been doing, especially for the past decade, without paying enormous bills for it. And the bills, as the President said yesterday, are coming due right now.

We had pretty high bills in 1966. We refused to pay them. We refused to pay them again in 1969 and 1970. Today they are even higher.

I suggest if we don't win the battle this time, the next time the bills will be presented, they will be unacceptably high and I think that is very dangerous for the American way of life.

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QUESTION:

Taking account of the circumstances as they exist, do you think the President's program is too stimulative and do you think the deficit is too large?

SECRETARY SIMON:

I do not believe that the President's program is too stimulative. Actually, the tax cut is for one year. We must get the economy rolling again to take care of one side of the equation that I spoke of a minute ago, and that will produce an increase of Treasury revenues which will narrow this deficit.

It is not going to narrow it in time for us not to have strains in our capital markets, however, because we are going to have an impact on the capital markets where we encroach on the centerpiece of the free enterprise economy that supplies the needed capital for productive capacity and new jobs and cheaper goods and services. Each year the government is taking a larger and larger share of it, and the arithmetic is pretty simple: Government at all levels is going to be taking about 80 percent of the traditional debt markets -- the traditional markets that industry at all levels borrows from -- and that is horrible.

Thank you, ladies and gentlemen -- I will look forward to seeing you again soon.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE January 21, 1975

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 January 30, 1975, as follows:

91-day bills (to maturity date) in the amount of $2,600,000,000, or thereabouts, representing an additional amount of bills dated October 31, 1974, and to mature May 1, 1975 (CUSIP No. 912793 WG7), originally issued in the amount of $1,998,065,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,300,000,000, or thereabouts, to be dated January 30, 1975, and to mature July 31, 1975 (CUSIP No. 912793 XG6).

The bills will be issued for cash and in exchange for Treasury bills maturing January 30, 1975, outstanding in the amount of $4,607,130,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,635,620,000. 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, Monday, January 27, 1975. 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 January 30, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing January 30, 1975. 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 W04-2041

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FOR RELEASE UPON DELIVERY

REMARKS BY THE HONORABLE STEPHEN S. GARDNER
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE INSURANCE INFORMATION INSTITUTE
ANNUAL MEMBERSHIP MEETING
ST. REGIS HOTEL, NEW YORK
WEDNESDAY, JANUARY 22, 1975
12:30 P.M., EST

Good afternoon:

I am delighted to speak to such a distinguished group and I am also apprehensive. On Sunday, I addressed the National Association of Homebuilders in Dallas, who are disturbed about their industry and the economy. Today I am talking to a group who have to be disturbed about their industry and the economy. The only relief in sight is next Monday in Miami Beach when I will address a group of trust bankers, who only have to worry about their investments.

But these are troubling times for all America. The unemployment rate is rising and too high. Millions of Americans are suffering hardships induced by inflation. And I know that your industry, like the economy, has just suffered through an incredibly catastrophic year with unprecedented casualty losses, an escalation of claims from inflation and an erosion of surplus.

In fact, we need no more examples than the events of the past year to conclude that even our enormous economy in the U.S., when beset by such potent adversity as the oil embargo, crop failures and years of fiscal stimulation, is vulnerable.

Now recession, unemployment, and inflation are the background for but not the subject of what I have to say. I want to deal with some subjective issues which bear on our ability to regain a course of economic progress and to overcome our difficulties, all of which I firmly believe is possible.

It seems almost too elementary for me to suggest that what has been achieved in our free economy through the mechanism of the marketplace and the largely unplanned but earnest efforts of men has created more social, economic and political benefits than any society in history has ever enjoyed. Routinely, we have defended most of these traditions, ideals, our form of government and bragged about our success as a land of opportunities, innovation and productivity where a man could rise through the work of his own hands, his mind, his ingenuity.

But strikingly, and perversely it seems, during the span of years of our greatest successes, we have increasingly denigrated, criticized, become embarrassed about, the core mechanism, the profit motive that has driven our economic machine. I believe this rejection has been intensified, however illogically, by our noble ventures in social programs to stamp out poverty, discrimination and our efforts to carry the egalitarian banners of the free world.

Thus, in the economic storm swirling around us today there is a strong and obvious bias towards transferring a further sizable block of incentives and economic control from the private to the public sector. The American public is restive, angry, hurt and deeply concerned. There is a rising clamor for government controls, intervention, regulation, rationing, tariff protection and a policy of economic nationalism.

What this will do to the basic structure of our American system is not my only worry. What it will do to our opportunities to restore economic growth and control inflation is my immediate concern. We have amassed in America impressive evidence for future historians of the comparative abilities of a free versus a planned economy.

When the engine of private enterprise is sufficiently constrained, government loses its strongest resource in the fight to restore economic and social progress. That is just a simple fact. Today government represents 33% of GNP. The private sector is twice as large.

A "New Direction"

The President has been beset by this gathering storm and he has been working steadily to come up with solutions. The media, the Congress, the people have urged him to be tough, and he has. They have urged a strong energy program and it's there. They have urged that he deal with recession and he has, dramatically. The program that he presented to the nation and to the Congress this past week represents the results of many long hours of deliberation and documentation. It is a complex program because our problems are complex. But I think that as it is debated and discussed in the coming weeks it will be perceived to be a comprehensive and fair approach to the crisis in our economy.

If I may use two words to sum it up, I would say that the President's program sets us in a "new direction."

For months, our economy has been heading on a downward course. This program will help turn it around, putting America back to work.

For more than a decade, we have had a growing dependence upon foreign energy sources. The President has pointed toward a dramatic, new direction of energy independence.

For more than four decades, we have also been heading in the wrong direction on government spending and encouraging inflation. The President is proposing an equally dramatic change. And the special virtue of this program is that it marshalls the larger resources of the private sector through incentives, tax relief and a tax cut and other measures absolutely essential to economic growth.

I said earlier that government expenditures are 33% of GNP but if the present trends of mandated program growth continue, OMB has estimated that by the end of the century the government would dominate the economy and account for 66 2/3rds of our Gross National Product.

Governments by definition restrict, control, enforce laws, tax people: in essence, defend the status quo. They are referees of the game. They should hardly ever be allowed to play.

The Economic Package

Now let me turn now to a discussion of key elements of the President's program and it is divided essentially into two packages -- one to deal with immediate economic problems and the other to deal with long-range energy problems.

On the economic side, the President's main proposal is a one-year across-the-board cut of $12 billion in individual income taxes and a one-year cut of $4 billion for corporations in the form of a short-term increase in the investment tax credit. Our best estimate is that the economy will begin bottoming out during the spring and summer. The President's program would begin to take full effect during the summer, and it would help to make the recovery sharper and stronger.

Some prominent people have criticized the tax cut because it does not return all of the money to lower and middle income families. There are two answers to that charge. First, when you combine the effects of this tax cut with the tax reductions that are included in the energy package, you will see that lower and middle income families come out substantially ahead of everyone else. Secondly, in terms of solving our immediate economic problems, we have to recognize that the heart of the recession is in major consumer items -- housing, automobiles and the like. We have to encourage people to increase their purchases of these items. We will never succeed in that venture if we put all of the tax reduction at the very bottom of the tax scale. Some of it must go to the taxpayers who pay most of the taxes. In the U.S., people with incomes of $20,000 or more represent 12% of our taxpayers. They now pay 52% of all income taxes.

Other critics have said that we should give no further incentives to business, aside from what I have said so far. I can only believe that those critics no longer understand the capital investment trends in this country. When are we going to wake up to the fact that America is investing far less of its resources in its future than almost any other industrialized nation. From 1960 to 1973, the United States was devoting less than one-fifth of its total output to capital investment -- a percentage that was smaller than Germany, France, Japan and several other countries. Partly as a result, our annual growth rate in productivity was only 3 percent during this period, compared to 6 percent for the French and Germans and more than 10 percent for the Japanese. Capital investment is the key to expanding our industrial base to providing new jobs, and the kind of economy that will support the social progress that is unique in America.

Corporate profitability has been declining for more than a decade; it is significantly lower now than it was in the mid-1950's. If we want to strengthen our economy, it is absolutely essential that we improve the climate for business investment, business expansion, jobs, and profits in this country.

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A third kind of criticism is leveled at the tough new ceiling the President wants to place on Federal spending. The President is insisting that we enact no new spending programs this year, except in energy, and that increases in government pay, military retirement, Social Security, and similar programs be held to 5 percent. To me, this cap on spending is not only novel but courageous. Let us recognize two essential points:

-- First, unless we hold down spending, we are courting a new round of very serious double digit inflation. I need not remind you what extremely high inflation rates and equally high interest rates will do. As it is, our energy crisis is going to require efforts that will raise the consumer price index by two points or so. That is a high price, but we believe it is necessary for our long-range health. We also believe that the back of the most virulent part of inflation may now be broken and that the rate of inflation should be coming down. Last week's wholesale price figures, showing a leveling off of industrial prices in December and an actual reduction of all items together, was encouraging. Our expectation is that the downward trend in the wholesale prices will work their way through to consumer prices and that even with the enactment of the full energy program, we can reduce the rate of inflation to below the double digit mark during 1975. But, if we have a flood of new government spending or if we turn to an excessively stimulative monetary policy, we will lose.

-- Secondly, let us recognize that in order to finance its deficits, the Federal Government must enter the private capital markets to borrow money. As a borrower, the government always goes at the head of the line, and if it borrows an excessive amount of money, it can drive up interest rates for everyone else. One of our most critical concerns at the Treasury Department is the growing domination of the private capital markets by governments at all levels -- local, state and Federal. In the fiscal years 1973 and 1974 almost half of all new funds raised in the capital markets went to the U.S. Government or government-sponsored agencies. This year, because of the tax reductions, we expect the level to be significantly higher. This will mean that we will have a tight fit in the capital markets, but we think that under the President's programs the problem will be manageable. However, if we turn on new government spending, the deficits could rise further, choking up those markets and causing problems for the entire economy. This is a result that we must avoid, and we can only avoid it if we keep a tight lid on new government spending.

The Energy Package

Essentially, the President faced three options in the energy field: He could do nothing, he could turn to rationing, or he could use the pricing system to encourage greater conservation.

If he had done nothing, it should be clear that the consequences would have been severe for both the United States and the rest of the world. Five years ago, we were paying about $3 billion a year for foreign oil. In 1974, we paid out $24 billion for that oil, and this year the figures could go higher still. The United States simply cannot afford to ship so much of its national treasure overseas and maintain its economic and political security. Thus, we have no choice but to act.

We would be making a terrible mistake, however, if our desire for action leads us down the path to rationing. It would be an unacceptable bureaucratic nightmare.

The answer the President has chosen is the third alternative -- use of the pricing system to encourage conservation -- something practically every oil-short nation in the world has adopted. In France, Italy, Germany, and the United Kingdom, the average federal tax per gallon of gasoline is $.63. The price will be high, but it has to be high to overcome the challenges we face. In brief, the President is taking executive actions and asking the Congress for legislative actions which would raise the prices of most energy products by a total of about $30 billion a year. In order to ensure that the higher prices do not depress the economy, he is also asking for tax changes that would return most of that money to consumers and to industry. Our best estimate is that the average family would pay about 25 percent more for fuel than they have in the past, but at least in the case of lower and middle income families who are careful in the way they use energy, the tax reductions should more than compensate for the higher costs. These measures are very tough, and the President is holding additional measures in abeyance in case even these fail to reduce our level of oil imports by a million barrels a day.

Combined with the conservation measures, the President is also pushing hard for Congressional actions that would increase our domestic production. It is incongruous to think how much time and money we have wasted because of environmental and legislative delays over energy. Private industry originally estimated that the Alaskan pipeline could have been put in service in 1973 at a total cost of about

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$900 million. Now, because of delays, that pipeline will not become available before late 1977, and its estimated costs are projected at $6 billion. There are similar problems with legislation which would provide more natural gas to consumers, would open up the petroleum reserves, and would allow greater use of our oil resources off shore. The President's program is intended to unlock these resources and, in the most realistic approach that this country has ever had towards its energy needs, free us from dependence on foreign energy sources by 1985.

1975 will be a pivotal year in every sense of the word. Our consumer-goods oriented economy will have to recover and we expect that it will recover faster through the impetuous of the tax rebate. The housing and automobile industries will inevitably improve. Basic demands in these major items is greater than the present and recent past levels of sales. In the financial markets we will have a very tight fit which will require the Federal Reserve's most expert fine tuning to use a maligned phrase. Consumer and investor confidence will begin to be restored as the indices improve and unemployment levels off and begins to decline. My point is simply that all of this will happen as recovery in the private sector takes hold. It will not happen with rationing, allocations, wage and price controls, government subsidies and a further transfer of incentives and economic control to the government.

To summarize, President Ford has presented us with a sweeping and comprehensive set of proposals to get this country moving again despite a serious energy shortage. The time has come for action. The President has acted, and he has acted boldly. Now it is time for the Congress to act. Our program is before the people; as soon as the Congress moves, we can get on with the job.

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STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
WASHINGTON, D.C., WEDNESDAY, JANUARY 22, 1975

It is a privilege to appear before this Committee as you begin the work of the 94th Congress. During the next two years, you will be considering many of the most significant issues facing the United States. There will be times when we will differ on those issues, but as in the last Congress, I want to work with you as closely as possible to ensure that those who are served best are those whom we all serve, the people of this country. Toward that end, I pledge to this Committee the full cooperation of my office and of all who work at the Treasury Department.

President Ford, after considerable study and consultation, has proposed to the Congress an integrated and comprehensive program in both the economic and energy fields. In my view, the President's program represents the best means of dealing with those problems. In working with you, my first objective will be to obtain swift passage of legislation that is necessary to carry out our program.

The occasion for my appearance this week is to discuss two items: First, the President's tax proposals and their impact on the economy; and secondly, the need to raise the federal debt limit. With the consent of the Committee, I propose to discuss the first of these items today and to address the second tomorrow.

The President's program is designed to deal with three basic and urgent problems:

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--inflation;

--recession; and,

--energy independence.

These problems are difficult and complex, and their solutions will also be difficult and complex. To some extent, the remedies work at cross purposes with each other. The answers are neither black nor white, but matters of balance and judgment.

Some say we can't solve all these problems, at least not all at the same time. I believe we can. The President believes we can, and has charted the course to do it. Indeed, we have no other choice, for the penalty for inaction could be frightening. We will ultimately be held responsible for the results, no matter what the pollsters say today about our approach.

The proposal for a temporary tax reduction to stimulate the economy has the very highest priority and we urge that you enact it immediately, even if that means separating it from the other elements of the President's proposals. However, all of the elements in the proposal are interrelated and, therefore, I need to deal with them all here today.

<u>Inflation</u>.

Inflation, like interest, tends to compound. It reached an annual rate of more than 12% in 1974, the highest level in peacetime history. The damage has been extensive. The lifetime savings of many have shriveled in real terms. Interest rates have risen to all time highs, with adverse effects on the livelihoods of millions, on the opportunity for families to own their own homes, and on the ability of others to start or stay in business. The uncertainties created by inflation undermined the confidence of both consumers and investors, with consequent damage to jobs and to the new investment and increased productivity which are required to stem inflation. I do not believe that our economic system, as we know it, could long survive such a trend. In 1919, J. M. Keynes wrote:

> "There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."

I'm told that statement was a follow-up by Keynes on a similar remark of Lenin, to the effect that inflation could destroy capitalism.

Inflation is popularly said to be caused by "too much money chasing too few goods." That is an oversimplification, but it captures the essential truth.

There have been many causes for this inflation, but, in my opinion, the biggest single factor has been a prolonged period of large government deficits, including the off-budget lending and loan-guarantee programs.

The momentous growth in federal expenditures and federal deficits has been truly startling. It took 186 years for the federal budget to reach $100 billion, a line it crossed in 1962, but then only nine more years to reach $200 billion, and only four more years to break the $300 billion barrier. Revenues, of course, have not kept up with expenditures, so that when we close the books on fiscal year 1975, we will have had budget deficits in 14 of the last 15 years--and the accumulated debt for that period alone will exceed $130 billion.

There can be no doubt about the inflationary impact of such huge deficits. They added enormously to aggregate demand for goods and services and were thus directly responsible for upward pressures on the price level. Heavy borrowing by the federal government 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--a subject I will address in more detail tomorrow. 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. In short, 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.

When the government runs a deficit--when it spends more than it receives--it must borrow to make up the difference. Under our modern monetary system, that kind of borrowing almost always results, sooner or later, in the creation of too much money. It seldom results in the commensurate creation of additional goods and services.

Government borrowing does not necessarily require the immediate creation of too much money, for the government can borrow existing money in the private capital markets. To that extent, it competes with private demands for capital, preempts funds that would otherwise be used for private investment and, in a period of strong private demand, causes interest rates to rise.

If government borrowing in the private capital market grows so large that it threatens to dry up credit for private borrowers or causes abrupt changes in interest rates, the Federal Reserve customarily steps into the market and purchases government bonds for its own account. The Federal Reserve pays for that purchase not with money already in the system, but by setting up a new credit balance on its books. That almost immediately causes the total money supply to increase by several times the amount of the credit. In this way, the financing of large deficits causes the money supply to increase substantially, which creates more inflation. This has been a major part of the inflation explosion over the past decade.

In times of recession, private borrowing typically slackens as businessmen have fewer needs for credit. If additional government deficits simply take up that slack, it does not jeopardize the needs of the private sector and does not drive up interest rates. In the current recession, however, there may be less slackening in private demands than usual because of the high debt-equity ratios that have become typical, the general illiquidity of business, the inability of corporations to raise capital in the equity markets, and the necessity to finance inventories and capital goods at inflated prices.

If we cannot finance the deficit within the recession induced slack in the capital markets, then we shall have a credit "shortage" that will drive up interest rates significantly. The Federal Reserve could prevent that only by significantly increasing the supply of money. As we assess that situation, we must remember, too, that what appears to be slack at the moment may disappear as business bounces back

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and its demand for credit returns to normal. When the recession is over, and goods and services have returned to their original pre-recession levels, if the money supply has been significantly increased, we shall have created additional inflation.

There is no way to escape the basic dilemma presented by large government deficits. On the one hand, if the deficits cause a significant increase in the money supply, we shall have further inflation. On the other hand, if deficits are not permitted to increase the money supply, we must be prepared to endure tight credit and high interest rates.

This is a very difficult circle to break. The only solution is to take a long-term view and resist the temptation to deal with each painful aspect of the cure as a crisis to be solved by short-term remedies, i.e., by more deficits.

A most important tool in beating inflation is increased productivity. We need to encourage and facilitate conduct that will increase the supply of goods and services, so that the increased money supply that will surely flow from these deficits will be chasing an amount of goods and services that has also increased. Just getting back to pre-recession levels of goods and services is obviously not enough.

Recession.

We are presently in a full-fledged recession. It is in substantial part attributable to our inflationary excesses. It is the hangover that follows the revelry.

One of the major factors in the current recession is the decline in the housing industry, which is a key component in our economy. The housing industry is especially vulnerable to high interest rates, and was thus hard hit when inflation caused interest rates to rise to all time highs. Thus, so far as housing goes, it is inflation itself which caused the recession. We cannot expect the housing industry to regain its full health until we get inflation under better control.

It is tempting to believe that housing can be helped by driving down interest rates through a more rapid increase in the supply of money. That does not work in an inflationary climate, however, because the increase in the money supply further increases inflationary expectations, sometimes with a lag and sometimes almost immediately, and thereby sends interest rates not lower, but higher. Thus, housing is hurt, rather than helped, by such policies.

In the same way, inflation was a major factor--perhaps the major factor--in demolishing consumer confidence. Polls taken by the Survey Research Center at the University of Michigan show that the precipitous decline in consumer confidence began when prices started hitting new peaks--well before the effects of the recession were clearly felt. While the recession has driven confidence even lower, it was inflation that pushed it over the brink. This loss of consumer confidence has caused the biggest drop in consumer purchases since the Second World War and is a significant part of the current recession.

Some part of the recession is also attributable to the program to bring inflation under control. When we embarked on that program, we knew that it would dampen economic activity, for that is an inevitable side effect of the process of slowing inflation. The principal tool in winding down inflation has been a policy of monetary restraint, which was in effect most of last year. If the money supply had been permitted to increase fast enough to accommodate all of the price increases we were experiencing, the additional money would have caused the prices to spiral even faster. Thus, it was necessary to slow down the rate of growth in the money supply. Whenever that is done, some are caught in the crunch.

Those are the hard trade-offs. Inflation causes dislocations. And stopping inflation causes additional dislocations. Dislocations cause the economy to fall off.

To cure our economic problems, we will have to administer the medicine continuously over a period of years. We are a long way from full recovery. And we have to watch the patient carefully all the while, because the side effects of the medicine are strong and we may need to adjust the prescription from time to time.

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Our goal must be to keep a balance. We want to do as much as we can to stop inflation without unduly hampering economic activity. At the same time, we all recognize today that recession has become a much more serious problem, causing widespread hardships and unemployment. Moreover, it has developed more rapidly and has been steeper than anyone expected. It is apparent that under these circumstances we must shift the balance of our policies more heavily in the direction of fighting the recession. The President's recommendations for a temporary tax cut are designed to ensure that the recovery we expect in the middle months of the year is sharper and stronger than would otherwise be the case.

We can and must have recovery from the current recession, but we must do that in a way that does not lead to an overheating of the economy again. We will lose the opportunity to achieve stable economic growth if we switch to excessively stimulative policies. That has been the repetitive pattern over the past decade. Every time the economy showed signs of hesitation, there was a pronounced shift to stimulative monetary and fiscal policies.

One of the best examples occurred only a short time ago. After a rapid acceleration in the rate of inflation during the late 1960's, a program of fiscal and monetary restraint was started in 1969. As a result, inflation peaked out at 6% and then declined slowly to about 3-1/2% 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.

The result of such stop-and-go policies is that we have pushed the inflation rate up onto higher and higher plateaus. In 1966, the peak inflation rate was about 4%; in 1970, it was about 6%; and now prices are rising at about a 12% rate. The same process ratchetted interest rates higher and higher. In 1966, rates on long corporate bonds peaked at a little over 6%; in 1970, they reached almost 10%; and this past year, the high was 12%.

Energy Independence.

Energy independence is both a political and an economic problem for the United States.

Oil is an extremely important and pervasive commodity in our economy. In recent years, our consumption has risen rapidly but our production has declined. We are now dependent on foreign sources for nearly 40% of our needs. Major foreign suppliers have organized a cartel and, at least at present, have the power to bring about political and economic spasms of the kind which we have recently experienced. In the last year and half, the Arab embargo created major disruptions throughout our economy, and the quadrupling of foreign oil prices has contributed significantly to both the inflation and the recession we are now experiencing.

Our economic system is strong and resilient and can undoubtedly survive almost any unfortunate development that is likely to occur in the near future with respect to oil. But many other nations are less fortunate, and our own economy is so interconnected with that of other nations that their problems are in substantial degree our problems. Trouble in one or more national economies abroad could have very serious effects on our own.

If we are to retain control over our own economic destinies, we must achieve independence. We can do it. And when it is clear that we intend to do it, we will regain a great deal of control over the situation. We will control very little from our knees.

The President's energy program is therefore designed primarily to reduce our dependence on imported oil. In order to do that, we will need to develop alternatives for oil and we will also need to reduce our total demands for energy of all kinds.

We are dealing with a long-term program. We believe we can achieve virtual independence in 10 years, but only if we start promptly, work hard and continuously, and make significant reductions in our demands for energy.

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Rationing is one way of curbing demand and a number of national leaders have proposed it. Public polls also show a surprising amount of support for rationing. I cannot imagine, however, that the American public will really want it once they think it through or would live with it if they got it. Remember that we are talking about a permanent program. If we should opt to travel the rationing route, we will not get rid of it. If we were to let it go we would--overnight--be again non-self-sufficient.

We could perhaps live with rationing in a period of temporary emergency. But as a way of life, I suggest it is fundamentally inconsistent with our system and with the spirit of the American public.

Even in times of emergency, rationing has never worked fairly or efficiently. To cut a million barrels a day from our consumption by rationing only gasoline for private households, we would have to hold drivers to an average of less than 9 gallons per week--a reduction of about 25% from today. To reach the 1977 goal of a 2 million barrels a day reduction would require a second 25% reduction. Some persons would obviously need more, which means that the basic ration for ordinary persons would have to be even less. But gasoline accounts for only part of each barrel of oil, and we would clearly need to ration the remaining products, too--fuel oil, jet fuel, diesel fuel, refinery products going into petrochemicals, etc. Who would decide which persons needed more and which needed less of each of these things? Every family, every car and motorbike, every store, school, church, every manufacturer--everything and everybody--would have to obtain a permit for a certain quantity of gasoline, electricity, natural gas, etc. Those allocations would have to be changed every time someone was born or died or moved or got married or divorced, and every time a business was started, merged, sold out or bought another, or the church or school added on a new room. And some government official would have to approve it.

What would the rationing bureaucracy do about such cases as:

- The low-income worker who owns an old car that gets only nine miles per gallon but can't afford to trade it in? His affluent neighbor who buys a new car that gets 22 miles per gallon?

. The low-income family that heats with oil a small but poorly insulated house, while their wealthy neighbor heats a large, well-insulated house with gas?

. The Montana rancher who drives nearly 600 miles per month and the Manhattan apartment dweller who drives less than 100 miles?

. The family that has to move from New York to California and use up several months' coupons in making the trip? One out of every five families moves every year.

. The family with sick members? The family that does turn off the heat in empty rooms and the family that does not? The family with few children and many rooms to heat and the family with many children but few rooms?

. The migrant worker who drives large distances every year but can't afford a more economical car?

. The shortages that would inevitably develop in areas where the coupons happen not to match the gasoline supplies?

. The gas stations, with limited quantities to sell, that maintain only limited services and are always closed on evenings and weekends?

. The collusion, counterfeiting and illegal activities that would inevitably develop?

Last year, when we considered the feasibility of rationing gasoline, we concluded that while it could be implemented, it would take four to six months to set up, employ about 15 to 20,000 full-time people, incur $2 billion in federal costs, use 40,000 post offices for distribution, and require 3,000 state and local boards to handle exceptions. When we consider the problems of just getting the mail delivered, are we really ready to trust an army of civil servants--however able and well-intentioned--to decide who deserves just what of this basic commodity?

People should ask themselves which they prefer: the suggested increase in prices, or a system in which someone else could tell them now and for the indefinite future where and when they might drive or how warm they might keep which rooms.

Does anyone honestly believe that the American public is willing to trade these basic freedoms--in perpetuity--for 10¢ a gallon?

The President has proposed instead that we reduce consumption of oil by the most neutral and least bureaucratic system available--through the price system. The energy proposals would raise the price of oil. At the same time, income tax cuts would increase the disposable incomes of every household. Taxpayers could, if they wish, continue to purchase more expensive oil and oil products. And they would have extra money to do it with. The question they would face is whether they wish to spend that extra money for more expensive oil or whether they wish to use it for some other purpose. A great many will choose to use it for other purposes. That is particularly true of businesses, which alertly switch to alternative products when a price advantage appears. The economic data available, updated by the experience of the last year, indicate that a tax of 10¢ a gallon spread across all the products manufactured from a barrel of crude oil will reduce consumption enough to meet our goals.

There has been a great deal of talk about the public being willing to make sacrifices. I believe they are. But for the average consumer this program should involve little sacrifice. For most, it would not even involve inconvenience or extra expense. The average consumer would be faced with higher oil prices, but he would also have additional money that would fully compensate him. He would retain total freedom of choice.

I realize that it is not immediately apparent to the average citizen how this program as a whole would reduce consumption and yet cost him little or nothing. Education is essential and I am counting heavily on the objectivity and expertise of this Committee and its able staff to achieve it.

The Need for Business Tax Relief.

The proposed program provides tax relief for both individuals and business. Individual income taxes account for about three times as much revenue as corporate income taxes, and relief would be allotted in that same three-to-one ratio.

Businesses, like people, have been badly buffeted by our economic difficulties. Many are in precarious financial situations. One need only look at the unemployment rolls in Detroit to see how important it is to all of us to maintain a healthy climate for business. Surely, the misfortunes of the auto industry have created many more hardships for auto workers than for auto stockholders. We will all be losers if our businesses are unable to earn reasonable profits and thus to make the investments that will mean more jobs and greater productivity in the future.

The suggestion in recent years that businesses have prospered while individuals have suffered is simply untrue. Corporate profits in the aggregate, realistically stated, are at an all time low as a percentage of our total national income.

Reported profits may be higher than in the past, but they do not tell the full story. There are two major elements which substantially overstate reported earnings in periods of inflation. They are inventories and depreciation.

The inventory situation may be illustrated by assuming a company that normally maintains an inventory of 100,000 widgets. If inflation causes the price of widgets to increase by $1, from $2 to $3, under traditional FIFO accounting the $100,000 increase in the value of the inventories is reported as profits, even though the company is no better off in real terms than it was before the inflation. Economists have long recognized that this increase is not a true "profit" and the Department of Commerce national income accounts have, from the inception of those accounts in the 1940's, separated it from profit figures.

For 30 years, business taxpayers have been permitted to exclude these amounts from taxable income, but only if they reported on the same basis to their shareholders and the public. Many businesses have preferred to pay higher taxes rather than report lesser earnings to their shareholders. With the rapid inflation which has occurred in the last year, however, the penalty in increased taxes on unreal income has

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become so great that there has been a major shift to LIFO accounting. This is long overdue and I regret that it has taken the business world and the accounting profession so long to get there.

A similar situation exists with respect to depreciation. In a period of rapid inflation, depreciation deductions based on historical cost result in reporting as income amounts which do not represent an increase in wealth but which are required merely to stay even. In a period of constant and substantial inflation, this subject urgently needs re-examination. Under current tax and accounting rules, business management is powerless to deal effectively with this problem. Businessmen often complain that depreciation charges are too low for tax purposes because of this factor but their credibility is severely impaired by the fact that, more often than not, they report to their shareholders and the public less depreciation (and therefore more income) than that which they are permitted to deduct for tax purposes.

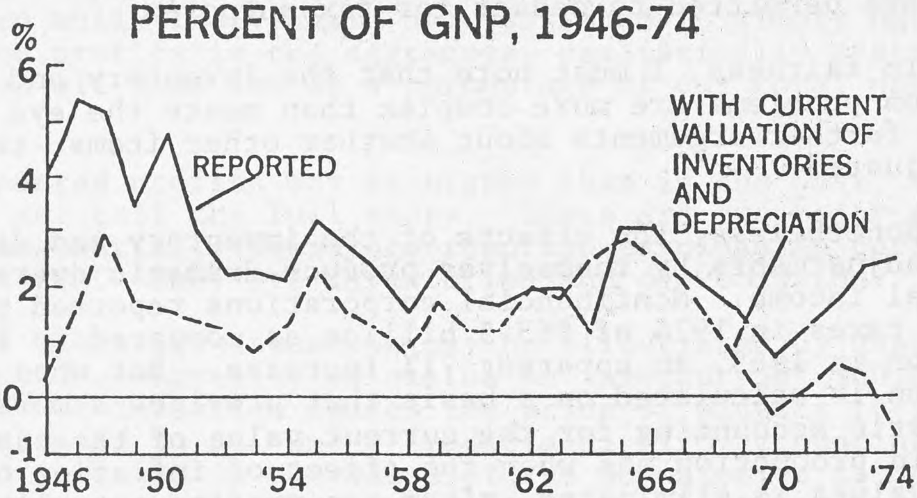
In fairness, I must note that the inventory and depreciation problems are more complex than meets the eye and raise further arguments about whether other items, too, should be adjusted.

Nonetheless, the effects of the inventory and depreciation adjustments by themselves produce dramatic overstatement of real income: Nonfinancial corporations reported profits after taxes in 1974 of $65.5 billion as compared to $38.2 billion in 1965, an apparent 71% increase. But when depreciation is calculated on a basis that provides a more realistic accounting for the current value of the capital used in production and when the effect of inflation on inventory values is eliminated, after-tax profits actually declined by 50%, from $37.0 billion in 1965 to $20.6 billion in 1974. A major factor contributing to this decline is that income taxes were payable on these fictitious elements of profits. That resulted in a rise in the effective tax rate on true profits from about 43% in 1965 to 69% in 1974. Thus, a realistic calculation shows that the sharp rise in reported profits was an optical illusion caused by inflation.

Since, in our economy, corporate profits are the major source of funds for new investment in productive capacity, all of this has grave implications for investment and growth. That is perhaps seen best in the figures for undistributed profits of nonfinancial corporations, restated on the same basis to account realistically for inventories and depreciation. It is the undistributed profits that corporations have left to fund additional <u>new</u> capacity (as distinguished from the replacement of existing capacity). In 1965, there were $20 billion of undistributed profits. By 1973--after eight years in which real GNP (the rest of the economy) grew 36%--the undistributed profits of nonfinancial corporations had dropped to $6 billion. And for 1974, our preliminary estimate is that the figure for undistributed profits is a minus of nearly $10 billion. That means that there was not nearly enough even to replace existing capacity, and nothing to finance investment in additional new capacity.

The following chart shows with dramatic--and frightening--clarity the true state of affairs.

UNDISTRIBUTED PROFITS OF NONFINANCIAL CORPORATIONS AS A PERCENT OF GNP, 1946-74



The business community is properly distressed that the public does not realize the seriousness of this situation. I have to say, however, that at least a portion of the blame can be laid at the door of business itself. Businesses like to report high earnings to their shareholders and to the public. Reported earnings are the "report card" for management. The willingness of business to continue using methods which overstate real economic incomes in an inflationary period leads the public to believe that business is a major beneficiary of rising prices. That causes the man in the street to believe that the total income pie is larger and that he has a legitimate claim on it, which, in turn, heightens the wage spiral and intensifies the squeeze on corporate profits and the difficulty of capital formation.

The fact that these overstated profits are also subject to tax presents a serious problem that we hope you will look into when you turn to tax reform later this year. The problem is too complex to deal with quickly, but it may affect the ultimate use of the revenues allotted to business relief.

While the deterioration of business profits may not be apparent to the man in the street, or even in the stockholders' reports, the professionals have not been fooled. The devastating effect of inflation on business profits has been reflected in sharp price drops in the equity markets. This decline in the stock market has rendered it practically impossible for most companies to raise money on favorable terms in the equity markets. As a result, corporations have been forced to rely more heavily on borrowed money, thus raising their debt-equity ratios to unusually high levels and driving up interest rates. Such interest rates become a major depressant on corporate earnings. Equally important, the lessening of the equity "cushion" leaves businesses inflexible and very vulnerable to bankruptcies in a business downturn.

The oil and environmental problems have been a further and major exacerbation. The past year's increase in the cost of petroleum products has rendered many business operations substantially less profitable, if not unprofitable. The airline, auto, travel, and electric utility industries--which are all closely related to oil usage--were hard hit. Increased oil prices have caused lower profits, lesser incomes, and fewer jobs in many businesses--which, stated another way, means that businesses were not able to pass on fully increased energy costs, and were required to absorb a significant portion in the form of lesser profits.

All of these developments argue strongly that tax relief for business is both deserved and required. We should also keep in mind that our system of business taxation bears more heavily on corporations than do the tax systems of almost every other major industrial nation. Our provisions for capital recovery are more restrictive than those in most other countries. More importantly, almost all our major trading partners have in the last few years largely eliminated the classical two-tier system of corporate taxation in which income is taxed once at the corporate level and again at the shareholder level. Through a variety of mechanisms they have adopted systems of "integrating" the personal and individual income taxes so that the double taxation element is eliminated or radically lessened. This has occurred in Canada, the

United Kingdom, France, Germany, Japan, and Belgium. The European Economic Community is asking that all of its members adopt such a system. While the complexities of this subject are best left for another occasion, the point I am making does bear on the general question of whether the tax burden on our corporations is excessive and should be relieved in some degree.

The Need for Anti-Recession Stimulus.

The need for some form of stimulation must be apparent to every member of this Committee. The recession is already serious and it will get worse before it gets better. Our latest estimates indicate that the rate of unemployment should rise to approximately 8%. We continue to believe, in fact, that even in the absence of further stimulation the economy should bottom out in the middle months of the year and that we should begin a recovery phase thereafter. The temporary tax cut would be of significant help in making the recovery more solid and more certain. It would also help to reduce the unemployment rate from what it might otherwise be. Moreover, since we are likely to have a margin of slack in the economy for some time, taxes can be cut temporarily without seriously compromising our efforts against inflation. Under these circumstances, we should do what we can to strengthen the economy through a temporary reduction in taxes.

$16 Billion Temporary Anti-Recession Tax Cut.

In order to provide the needed economic stimulus, the President proposes a one-time, temporary tax reduction of $16 billion, to be placed in effect within the next 90 days. Making it temporary avoids building into the system the larger deficits that would later refuel inflation.

The temporary tax reduction will be an across-the-board refund or tax reduction for all taxpayers. The total of $16 billion is allotted $12 billion to individual taxpayers and $4 billion to business taxpayers, which is the same 3 to 1 ratio that individual income taxes bear to corporate income taxes.

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Refund of 1974 Taxes to Individuals.

Individual taxpayers will receive a refund of 12% of their income taxes for 1974, with a maximum refund of $1,000 per tax return. The great majority of taxpayers would thus benefit in proportion to the income taxes they pay for 1974, but high-income individuals would not receive excessively large refunds.

Taxpayers are now filing their income tax returns for 1974 and nearly all will be filed by April 15. All taxpayers will continue to file their returns and pay income tax in accordance with present law. After their returns are filed, the Internal Revenue Service will calculate the amount of their refund, which will then be paid to them by checks in two equal installments.

I cannot emphasize too strongly the point that individuals should continue to file their tax returns in accordance with existing law. The sooner they do that, the sooner the system will be able to process their returns and mail their refunds. They should, under no circumstances, try to compute and deduct their own refunds. If they do, they will face possible fines and penalties and, at a minimum, an Internal Revenue Service examination of their return will probably be necessary to straighten out their final liability.

If, as requested by the President, the 12% refund is enacted by April 1, 1975:

--refund checks for the first installment--in total about $6 billion--would begin to be mailed in May and would continue through June as the later filed returns are processed; and

--refund checks for the second installment of the remaining $6 billion would be mailed in September.

The effect of the tax refund can be illustrated for a family of four as follows:

Adjusted Gross Income	Present Tax	Proposed Refund	Percent Saving
$ 5,000	$ 98	$ 12	-12.0%
7,000	402	48	-12.0
10,000	867	104	-12.0
12,500	1,261	151	-12.0
15,000	1,699	204	-12.0
20,000	2,660	319	-12.0
40,000	7,958	955	-12.0
50,000	11,465	1,000	- 8.7
60,000	15,460	1,000	- 6.5
100,000	33,340	1,000	- 3.0
200,000	85,620	1,000	- 1.2

Taxpayers with incomes of less than $15,000 now pay 31% of the income tax, and they will receive 36% of the refund. Eighty percent of the refund will go to taxpayers with less than $30,000 of income who pay 68% of the income tax. At the upper extreme, 24% of the income tax is paid by taxpayers with incomes in excess of $40,000. These taxpayers will receive only 11% of the refund.

Adjusted Gross Income Less Than:	Percent of 1974 Tax Liability Before Refund	Percent of Refund
$ 10,000	13.0%	15.1%
15,000	30.8	36.0
20,000	48.4	56.6
30,000	68.5	80.0
40,000	76.3	89.1
50,000	80.8	93.4
100,000	90.8	98.7

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This proposed method of tax relief has the following advantages:

. Larger amounts can be returned faster by mailing refund checks based on 1974 taxes, than by reducing tax liabilities for the year 1975.

. A reduction in 1975 tax liabilities would be achieved through reductions in withholding. It would not occur for at least a month after enactment of the tax reduction and then only in relatively small weekly or biweekly amounts stretching all the way through December of this year.

. With a refund based on 1974 taxes, taxpayers will know more precisely the total reduction they will receive and can plan accordingly, thus accelerating the stimulative impact.

. Receipt of two relatively large refund checks should have a greater psychological effect on family budget decisions and consumption attitudes than receiving the same total a few dollars at a time, thus increasing the impact of the $12 billion temporary tax reduction. This should also help the sales of cars, furnishings and other big ticket items that have been depressed by the recession.

. With a refund based on 1974 taxes, taxpayers will be assured of getting the refund whether or not their incomes may be reduced or uncertain in 1975. Thus, taxpayers who had jobs in 1974 but are now unemployed would be assured of refunds; they would not receive such refunds if they were applied only to 1975 income.

. Paying the refund in two checks rather than one will ease the strains on the capital markets that would be caused by the Treasury's financing of the entire amount all at once.

Emergency 12% Investment Credit.

The remaining $4 billion of the total $16 billion temporary tax refund and reduction will go to corporations, farmers and other business firms in the form of a one-year increase in the investment tax credit. That should stimulate the demand for capital goods and help increase productivity and employment.

The investment tax credit would be increased temporarily to 12% for qualified machinery and equipment placed in service in 1975 or ordered by the end of 1975 and placed in service by the end of 1976. As under existing law, special rules apply to property constructed by the taxpayer or to his special order.

We propose that this increase in the investment credit be effective beginning January 1, 1975. That is extremely important, as we want businesses to move ahead promptly with new investment, and it would be most undesirable if they were to suspend purchases and orders until Congress has finally acted. For this reason, Congress has in the past adopted a retroactive effective date like that proposed, and based on our conversations with members of the tax writing committees we are confident that it will do so here, too, if the proposal for an increase is ultimately enacted.

Because of the need for speedy enactment and because this emergency increase in the rate of the investment tax credit is for only one year, no other changes or restructuring of the present investment tax credit are proposed at this time, except for utilities. Because of the particular plight of the Nation's regulated public utilities, we recommend that the following additional changes be made:

- The discrimination against public utilities, which under current law are allowed only a 4% investment credit, would be eliminated permanently. Under the temporary emergency investment tax credit, and thereafter, public utilities would receive the same general investment credit rate as other businesses.

- The provision of present law which limits the maximum credit to 50% of liability for tax in excess of $25,000 would be modified in the case of regulated public utilities. The limitation would be increased to 75% in 1975, and be reduced by 5 percentage points each year through 1979, returning to 50% in 1980.

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The proposed 12% rate would be extended for two additional years, through 1977, for property, not fired by oil or gas, that provides power to electric generating facilities, including property converted from oil or gas use. This two-year extension will provide significant incentives for the development and use of nuclear, geothermal, coal, hydro, solar and other petroleum-saving power sources.

Increasing the rate of the investment tax credit has proved very helpful in reversing adverse economic trends. When the investment tax credit was repealed and other provisions increasing the tax burden on business were enacted in 1969, there followed a period of rising unemployment and business stagnation. Subsequent to the reenactment of the credit in 1971, new investment increased by 9% in 1972 and 13% in 1973. Further, in the period 1972-1973 industrial production increased 19% and there was a significant decline in unemployment.

Energy Taxes in General

The goal of the energy tax package is to reduce total consumption of oil and natural gas, which will reduce imports in like amount.

The package has three parts:

(1) An import fee increase ultimately settling at $2 per barrel on crude oil and products and a corresponding excise tax on domestic crude oil.

(2) Decontrol of crude oil prices and a Windfall Profits Tax.

(3) Price decontrol of new natural gas and the equivalent of the $2/bbl. oil excise tax (namely, 37 cents/thousand cubic feet) on all natural gas, to curtail its use and discourage switching from fuel oil to natural gas.

This combination of fees, taxes and decontrol will raise the prices of oil, and gas and related products relative to other prices. That will discourage their unnecessary use, encourage the substitution of other energy sources, and induce the replacement of existing energy-using devices.

Gasoline Tax as Alternative.

Many persons have suggested that a gasoline tax would be preferable to taxes on crude oil.

There are several reasons for preferring a tax on crude oil to a gasoline tax:

- A price increase in crude oil is far more effective in reducing consumption than a gasoline price increase. The increased prices under the proposals amount to about 10¢ per gallon, distributed across all of the products that come from a barrel of crude. It would take a gasoline tax of 45¢ to 50¢ per gallon to achieve the same reduction in consumption. There are two explanations for that. First, since the price of gasoline is higher than for other refinery products, a larger cents per gallon change is required to get the same percentage change. Second, gasoline accounts for only about 40% of the barrel of crude and a tax on only 40% must obviously be higher than a tax on 100%.

- With a 45¢ to 50¢ gasoline tax, gasoline prices would rise an aggregate of \$45 billion. That compares with oil price increases of only \$21 billion under the proposed program.

- Crude oil--not gasoline--is the problem. We want to reduce consumption of each of the elements in a barrel of crude.

- There is just as much opportunity to conserve other petroleum products and other forms of energy and energy intensive products as there is to conserve gasoline. For example, many thermostats could be turned down with no real discomfort. Our trash cans are heaped with direct petroleum products such as plastics, and other products that require large amounts of petroleum related energy to create, such as aluminum. We can conserve a little on a wide range of items and save a lot in total.

- It is fairer to let all petroleum users make a moderate adjustment than to impose a drastic increase on just gasoline users. And it is

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easier for the economy as a whole to accommodate a moderate, broadly distributed increase than a very large, more narrowly based increase. The proposals avoid devastating the automobile industry, the travel industry, and others which depend on gasoline for survival.

$2 License Fee and Excise.

The U.S. now imports about 4.1 million barrels per day of crude oil and about 2.6 million barrels per day of fuel oil and other refinery products. An additional import fee of $2 per barrel on crude and product is to be imposed in stages of $1 each on February 1 and March 1 by Presidential Proclamation under the authority of the Trade Expansion Act of 1962. In addition, if Congress has not enacted the excise tax on domestic oil by that time, the import fee will be raised another $1 on April 1, for a total increase of $3. Adjustments in the fees on imported products will be made to reflect obligations under the old entitlements program.

The $2 per barrel increase in the fee will raise the average price of imported crude oil and its products by $2 per barrel. In the case of crude oil, that means an increase from around $11 per barrel to $13 per barrel. Domestic crude would also sell at about $13 per barrel, and the excise tax of $2 would leave the effective price to domestic producers also at $11 per barrel.

The import fees will bring in revenues of $3.2 billion in 1975 and $4.1 billion in 1976 and the excise tax will raise $4.8 billion in 1975 and $7.2 billion in 1976.

Decontrol and Windfall Profits Tax.

Last year the United States produced 9.2 million barrels of crude oil per day. We now produce only about 8.8 million barrels of crude oil per day, approximately 60% of which, or 5.3 million barrels, sell at an average price of $5.25 per barrel because of price controls. If present controls continue, this year's production will decline further to perhaps 8.6 million barrels per day. Our system of price controls is seriously counterproductive to our need for greater domestic supplies.

An illustration of the way that price controls discourage production occurs in connection with the "stripper well" exemption, which permits oil produced from leases which average fewer than 10 barrels per day per well to sell at the world price. The exemption encourages producers to let their wells decline from 15 or 16 barrels a day to 9.9 barrels per day. They actually make money by suffering a production decline.

Another illustration arises in connection with secondary and tertiary recovery processes, which are used to stimulate additional production after original production has declined. Those processes are costly and part of our production decline is attributable to the fact that they are uneconomic at controlled prices. Money will not be invested to produce more controlled oil at $5.25 per barrel if it can be invested in producing uncontrolled oil at $11 per barrel, or in some completely unrelated business at a higher rate of return. Regulation of prices drives people out of the regulated business and into other lines of business not so subject to uncalculable, nonmarket risks. Price controls were imposed as a means of preventing windfall profits, but clearly we must find a more sensible approach.

The combination of price decontrol and the Windfall Profits Tax is a workable solution to the problem. In 1975, we estimate that a producer of controlled oil would receive $11 per barrel after decontrol (net of the $2 excise), or an increase in price of $5.75 per barrel ($11.00 - $5.25 = $5.75). The Windfall Profits Tax proposed would average $4.53 per barrel, reducing the producer's net price increase to $1.22 per barrel. That $1.22 translates into about 76¢ per barrel after tax.

After decontrol, the price for all oil will be the same, thus eliminating all the inefficiencies of the two-tier pricing system. Producers of uncontrolled oil will begin to pay a windfall tax on the increased prices they have enjoyed for more than a year. As a result, they will pay $2.81 per barrel more tax on those increased profits than they paid last year. Producers of controlled oil will begin to receive the same increased prices but will be permitted to keep only 76¢ of that increase. Both controlled and uncontrolled oil will receive the same prices and pay the same taxes.

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	Uncontrolled Oil	Controlled Oil
Price per barrel	$11.00	$11.00
Former price	(11.00)	(5.25)
Net price increase	-0-	5.75
Windfall Profits Tax	(4.53)	(4.53)
Gain (loss)	(4.53)	1.22
Income tax at 38%*	1.72	(.46)
Net effect after tax	($ 2.81)	$ .76

*Corporate rate of 48% adjusted for percentage depletion and minimum tax.

Most significant producers have both controlled and uncontrolled oil and, compared with last year, they will net less on the uncontrolled oil and net more on the controlled oil. For the industry as a whole, net after-tax income will be reduced by $2 billion, which means that the benefits from decontrol will be more than offset--by $2 billion--by additional taxes paid to the Treasury. Those Treasury revenues are among those to be returned to taxpayers in the form of tax reductions.

The concept of the proposed Windfall Profits Tax is the same in general as the Windfall Profits Tax proposed last year, although the new proposal has been structured to raise substantially higher revenues. In summary, the tax is designed to capture a windfall profit--that is, one which results from a sudden change in price caused by a circumstance which is accidental and transitory. It is difficult to separate ordinary market prices from prices which permit windfall profits (or "excess" profits if one wishes to think of it that way). We have made an estimate--a judgment--as to the "long-term supply price," i.e., the minimum price to producers that will be sufficient to induce an increase in our supplies of oil sufficient to make us energy independent by 1985. Our judgment is that the price required for this is around $7 to $8 at today's price levels, assuming the continuation of percentage depletion. The tax is designed to permit producers to retain an amount equal to the long-term supply price by the time additional oil supplies will be coming on line three to five years from now.*

*If percentage depletion should be eliminated, the net to producers from a $7 to $8 price would be reduced, a higher price would be required to produce the same net return and the same oil production, and the proposed Windfall Profits Tax base and brackets would need to be revised upwards accordingly.

The proposal does not include a credit for so-called "plowback" investments, nor does it include exemptions for certain classes of producers. Plowback is not justified because the amounts oil producers will retain, after the tax as it is structured, will provide a price incentive sufficient to attain our energy independence goals. To put it another way, there is no convincing evidence that permitting a plowback credit will produce significantly more energy than not doing so. Further, a plowback credit means that persons already engaged in oil production can make investments with tax dollars supplied by the government, while new investors must use their own money. We do not believe that kind of discrimination and anti-competitive effect can be justified.

In the case of different classes of producers, we simply believe that a windfall produced by cartel prices is a windfall to large and small producers, high- and low-cost producers and producers located everywhere. Producers all receive a cartel price and not a free-market price.

The issue of plowbacks and special exemptions ultimately boils down to whether windfall profits should go to oil producers or to the public in the form of tax reductions. The permanent tax reductions proposed depend upon the government receiving these revenues. If the revenues are curtailed, the tax reductions will need to be curtailed, too. We have tried to design a tax that will not inhibit those investments in oil production which are economic and which are needed to reach our goals. If we believed that the tax would inhibit needed investment, we would not propose it. Plowback credits and special exemptions would undoubtedly make existing oil producers wealthier than they would otherwise be, but would not significantly increase oil production. It is taxpayers generally who pay the prices that produce the windfall, and the revenues should go for the benefit of taxpayers generally.

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Decontrol of New Natural Gas and Excise Tax.

Natural gas shortages last year forced major curtailments of supplies to many industrial firms and denial of service to many new residential customers. Curtailments and denials are much greater this year and are causing not only extra costs and hardships, but, in many cases, business close-downs and loss of jobs.

New natural gas goes primarily into intrastate, uncontrolled markets where prices range around $1 per thousand cubic feet ("m.c.f."). Gas in the interstate market averages less than 40¢/m.c.f. The result is that interstate supplies are insufficient, and the energy gap in nonproducing states is made up with imported oil, which on a BTU equivalent basis costs about $2.00, and with imported liquefied natural gas at $1.80/m.c.f. Deregulation will permit new domestic gas to flow into the interstate markets with an aggregate savings to existing customers in those markets, an end to curtailments, and a net saving in national resources.

Whether or not new natural gas is deregulated, the President proposes an excise tax of 37¢/m.c.f. on natural gas. That is equivalent, on a BTU basis, to the proposed $2.00 excise tax on oil and will prevent fuel oil users from switching to gas. It will also bring the average interstate price close to the market clearing price (the price at which supply and demand will coincide), and end the careless use of this fuel by those for whom it is cheap at present prices.

An equivalent tax, based on BTU content, will also be placed on natural gas liquids. Gas wells produce about 86 percent "wet" gases and 14 percent "dry" gases. The wet gases are treated to remove the natural gas liquids, such as propane and butane, and the dry gas goes on into the natural gas pipeline. The dry gas and liquids will thus be treated consistently. For example, the tax on natural gas liquids sold in mixed stream would be $1.43 per barrel.

The liabilities for this tax would be $6.3 billion in calendar 1975 and $8.5 billion in calendar 1976.

Effectiveness of Energy Package.

The energy package will reduce consumption significantly, with modest adjustments by most of our citizens.

It is natural for businessmen and consumers to react to a sudden increase in price of particular goods with the thought: "This will merely increase my costs. It won't cause me to reduce my purchases." That reaction reflects the fact that we are creatures of habit. But we are also rational beings who adapt our habits to changing circumstances.

When meat prices rose sharply in the early months of 1973, the instantaneous response was a loud complaint as each of us found his grocery bill inflated. In time, we adjusted to the higher price by buying less meat. There is no doubt that the portions of meat being served by many families today are smaller than they were only three years ago. We didn't like it, but it had to be done. There was no other way to adjust to the new situation--no way that was better.

So it will be with energy. None of us relishes the prospect of higher oil and gas prices. We have all developed habits of energy use conditioned by two decades of declining relative prices of energy. As in the recent experience with meat, after the initial shock of resentment at the higher prices of petroleum products and gas, our rational selves will take over and we individually and collectively will find ways to reduce our useage of energy.

Immediately, we will slice smaller portions of the energy pie for ourselves:

. We will turn off the lights when we leave the room to save electricity bills.

. Thermostats will be adjusted downward in winter, upward in summer, and heat will be turned off in rooms not in use.

. Marginal trips in cars will not be taken; some second and third cars will be scrapped.

. Married couples will look closer-in for their first home, and possibly settle for an apartment instead of a detached home; and owners of homes and buildings who formerly considered the fuel savings from insulation, weather-stripping, and otherwise improving the thermal efficiency of structures too costly to obtain will now reconsider.

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Equally important, over the longer run:

- Industrial firms, ever on the lookout to cut costs, will speed-up the replacement of energy-using machinery and processes that were perfectly adequate in the days when oil cost $3 a barrel and gas only a few cents per thousand cubic feet, with substitute equipment and processes that may have higher initial costs but which consume less energy and thus have lower over-all costs of operation.

- Families will replace their present autos featuring comfort and speed at the expense of low mileage with lighter and more utilitarian cars that use less of the now expensive energy; and they may eliminate some of their most frivolous appliances while replacing others with initially more costly but more energy-efficient substitutes.

- Materials which require large amounts of energy to produce will be displaced by substitute materials which have become relatively cheaper because their production consumes less energy.

- More recycling will occur.

- The higher relative cost of oil and gas as energy resources will stimulate the development of other energy sources. Oil and gas will fill a smaller share of energy requirements. Just as coal displaced wood as our basic energy source, and oil and gas displaced coal, oil and gas will be displaced.

All of these examples are illustrations of what in the technical jargon of economics is known as "price elasticity of demand": quantities of things consumed decrease when their prices rise <u>relatively</u> to other prices. Every food merchant knows he will sell more bananas and oranges when a crop failure causes the prices of apples and pears to be high, and vice-versa. He may not have heard the term "price elasticity," but he knows how it operates.

Yet many remain skeptical that there is price elasticity in the demand for oil, or that if there is any, whether it is sufficiently large to make any difference in the volume of our oil imports. Experience since 1973 should put doubt to rest even if the findings of such major research efforts as those of the Ford Foundation Energy Project and the Federal Energy Administration do not.

For example, during the decade prior to 1974 when utility rates were steady, consumption of electric energy increased at a rate of 7.4%. Normally, one would expect any given period in 1974 to be 7.4% higher than the comparable period of 1973. But for the six-month period April through September, 1974 consumption was not 7.4% above 1973, it was one percent <u>less</u>, a swing of 8.4 percentage points below expectation. Some of this reduction in consumption could be attributed to the then just perceptible slowing-down of the economy, but a major portion of the reduction can be attributed to the energy price effects on electric utility rates. Experience with oil demand and prices is similar. During the decade prior to 1974, total U.S. petroleum demand increased at an annual rate of just over 5%. But the April-September 1974 petroleum demand was <u>under</u> the comparable 1973 period by 2.7%, a swing of 7.7 percentage points below expectation.

We need another reduction in petroleum useage of about 5% in order to reduce consumption by a million barrels a day. All of the econometric data indicates that the proposed price changes are on target.

Econometric models of the economy, such as those underlying the Ford Foundation Energy Project report, <u>A Time To Choose</u>, and the <u>Project Independence Report</u>, suggest that the short-term responses to energy price increases that we have already seen are half, or less, of the long-term response we can expect after households and business firms have had an opportunity to adapt fully to the higher costs of energy.

Thus, we have confidence that the President's energy program will easily achieve the one million barrel reduction in consumption by the end of this year and an additional one million barrel reduction by 1977.

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Permanent Tax Reduction and Restructuring.

The Treasury will collect an additional $30 billion in taxes from the windfall profits tax and the excise taxes and fees on oil and natural gas. The private sector will bear an estimated $25 billion of that in the form of higher costs of energy related items they buy, and Federal, state and local governments will bear the remainder.

The $25 billion paid by individuals and businesses will be returned to the economy by the permanent reductions in individual and corporate income taxes. Like the temporary anti-recession tax cut, the $25 billion total is divided in approximately the ratio of individual and corporate income tax payments generally, so that about $19 billion is allocated to individuals and $6 billion to corporations.

These are major income tax reductions. They accomplish multiple purposes, rest on multiple foundations, and should be considered in that way.

First, the changes proposed in the individual and corporate income tax structures are desirable on their own merits. They have heretofore been too expensive to accomplish within existing revenue constraints.

Second, these tax reductions return to the economy the energy conservation taxes. Thus, the energy conservation measures reduce energy consumption without reducing the aggregate purchasing capacity of the private economy.

Third, these income tax reductions will provide energy consumers with additional after-tax spendable income to help meet higher energy costs if they still wish to consume the same amount of energy as before. Alternatively, they can buy more of other products and cut back on their energy consumption--and many will do that. The income tax reductions are such that most individuals in the lower and middle income range, up to about $15,000, will receive tax reductions greater than their increased energy costs even if they should choose to continue consuming the same amount of higher-cost energy. Taxpayers in higher income brackets will receive significant income tax reductions also, but generally less in proportion to their greater expenditures for energy.

Fourth, these permanent income tax reductions are approximately similar to what is required to offset the so-called "bracket and deduction compression" caused by inflation over the last three years. Because deductions and rate brackets are stated in dollar terms, when inflation causes money incomes to rise, deductions offset a lesser portion of the same real incomes and the remainder is taxable in higher brackets.

Benefit for Individuals.

For individuals, the President proposes an income tax reduction of $16-1/2 billion beginning in 1975. This will be accomplished--

. By increasing the Low Income Allowance from its present level of $1,300, to $2,600 for a couple and $2,000 for single taxpayers, which will provide benefits of-------------------------- $5 billion

. And by cutting in half, from 14 to 7%, the tax rate for the first taxable income bracket and making substantial, but smaller, reductions in tax rates in the next four brackets,1/ which will provide additional benefits of------- $11-1/2 billion

Low Income Allowance.

The Low Income Allowance is the minimum standard deduction allowed to everyone regardless of his income level or the amount of deductions he actually has. In combination with the $750 personal exemption, the Low Income Allowance determines the minimum or base income on which no income tax is levied. In 1969, Congress defined the threshold taxability level by reference to so-called "poverty level" data, the assumption being that families with "poverty level" incomes did not have the requisite ability to pay and should be excused from liability. The Low Income Allowance was the mechanism adopted to achieve that result.

The Low Income Allowance is now $1,300. That means that a family of four with four $750 personal exemptions for a total of $3,000, plus a $1,300 Low Income Allowance, currently does not pay income tax if its income is $4,300 or less.

1/ Illustrates rate changes for married persons filing jointly. Comparable changes are made in other rate schedules.

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Because of inflation, the poverty level for a family of four is now estimated to be about $5,600. Nevertheless, under present law, this family would in 1975 be required to pay income tax of $185.

The proposed increase of the Low-Income Allowance to $2,600 on a joint return will bring the nontaxable level for the family of four up to the new poverty level of $5,600, which is $3,000 of personal exemptions plus the new Low-Income Allowance of $2,600. The proposed increase in the Low-Income Allowance will also make comparable changes for single persons and families of other sizes, as shown by the following table.

No. in the Family	Estimated 1975 Poverty Level	Tax-Free Income Level Present	Tax-Free Income Level Proposed
1	$2,850	$2,050	$2,750
2	3,686	2,800	4,100
3	4,382	3,550	4,850
4	5,608	4,300	5,600
5	6,618	5,050	6,350
6	7,446	5,800	7,100

Increasing the Low-Income Allowance to the levels proposed will provide benefits of about $5 billion to low-income taxpayers and relieve from income tax altogether over 5 million presently taxable returns.

Reduction of Tax Rates.

In addition to the change in the Low-Income Allowance, which benefits the lower income taxpayers, the proposals will reduce income tax rates for the 62 million remaining taxpayers in a generally progressive manner.

The present income tax rates for married persons filing jointly would be reduced as follows: The 14% rate reduced to 7%; the 15% rate reduced to 10%; the 16% rate reduced to 13%; the 17% rate reduced to 15%; and the 19% rate reduced to 17% for part of the present bracket and the balance of that bracket to remain at 19%. Rates for other income brackets would remain the same, except that the present 28% and 32% rates would be increased 1 percentage point each. Taxpayers with incomes falling in those brackets would still have a substantial net reduction in liability because a part of their income will also be taxed in the brackets in which rates have been reduced. Comparable reductions will be made in the tax rates for single returns and other types of returns also. The revised rate schedules are set forth in the appendix.

Progressive Income Tax Reduction.

The effect of the two elements of the proposed income tax reduction for individuals, both singly and in combination, is progressive. The proposed tax reductions are proportionately greater in both dollar amounts and percentages toward the lower end of the income spectrum. Nevertheless, taxpayers at all income levels share significantly in the proposed reductions.

The benefits from doubling the Low-Income Allowance are heavily concentrated in the adjusted gross income classes below $5,000, $10,000 and $15,000. The benefit of the reduction in tax rates goes 96% to persons with adjusted gross incomes below $20,000 and 89% to those below $15,000. When the two tax reductions are combined, 41% goes to persons with adjusted gross incomes below $10,000, 70% to persons with adjusted gross incomes below $15,000 and 86% to those below $20,000.

The following table shows the percentage reduction in the income tax by income class:

1975 Levels

Adjusted Gross Income Class ($000)	Income Tax Paid Under Present Law	Amount of Income Tax Reduction	Percentage Reduction in Income Tax
	($ billions)		
0 - 3	$ 0.3	$- 0.25	-83.3%
3 - 5	1.8	- 1.20	-66.7
5 - 7	4.0	- 1.96	-49.0
7 - 10	8.9	- 3.38	-38.0
10 - 15	21.9	- 4.72	-21.6
15 - 20	22.8	- 2.70	-11.8
20 - 50	44.4	- 2.15	- 4.8
50 - 100	13.5	- 0.11	- 0.8
100 and over	13.3	- 0.03	- 0.2
Total	130.9	-16.50*	-12.6

*Does not include payments to nontaxpayers.

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Some have suggested that there is no reason to cut taxes at all for upper bracket taxpayers. We believe, however, that fairness requires some--though lesser--relief in the upper brackets. It is important to remember that:

- Only about 12% of all taxpayers have gross incomes above $20,000, and they now pay about 52% of total individual income taxes. They will pay an even higher percentage of individual income taxes if our proposals are enacted.

- Upper income individuals have been adversely affected by inflation, just as lower income individuals. The prices of the things they buy have increased too, and since they buy more, the increase is greater. Also, "bracket and deduction compression" has adversely affected high-income taxpayers just as it has affected lower income taxpayers. Everybody has had, in effect, an income tax increase because of inflation.

- Upper income taxpayers play a disproportionately large role in providing the investments which help everyone's income to increase.

The following table illustrates the tax reductions that will be received by a typical family of four at various income levels.

Adjusted Gross Income	Present Tax 1/	New Tax	Tax Saving	Percent Saving
$ 5,600	$ 185	$ 0	$185	100.0%
7,000	402	110	292	72.6
10,000	867	518	349	40.3
12,500	1,261	961	300	23.8
15,000	1,699	1,478	221	13.0
20,000	2,660	2,450	210	7.9
30,000	4,988	4,837	151	3.0
40,000	7,958	7,828	130	1.6

1/ Calculated assuming Low-Income Allowance or itemized deductions equal to 17% of income, whichever is greater.

Increased Energy Costs Compared with Tax Reductions.

The proposed changes in the structure of the individual income tax stand on their own merits and were not designed primarily to offset increased energy costs.

Solving the oil problem will require the public, and particularly large energy users, to make adjustments that will be unpopular and which in some cases will cost money. Nonetheless, the proposed tax reductions are very substantial for low and middle income taxpayers below the $15,000 income level and we believe are, on average, sufficient to more than offset the average increases in their energy costs. The Council of Economic Advisers has calculated that the increase in the Consumer Price Index attributable to this program will be 2% or less. Others have suggested different percentages.

The following table provides some guidance, by indicating how much the tax reductions add to after-tax disposable income. It is after tax income which individuals have at their disposal to buy goods and services, including energy. If the cost of living goes up 1%, a 1% increase in after-tax income should leave the average taxpayer even. The table indicates that with a rise in prices of 2% or less, average taxpayers through the $15,000 AGI class will be ahead.

Adjusted Gross Income Class	After-tax Income	Proposed Tax Reduction	Reduction as a Percent of Present After-tax Income
($000)	(.........Billions	.....)	(.....Percent.....)
0 - 3	21.7	0.3	1.2 1/
3 - 5	33.2	1.2	3.6 1/
5 - 7	46.0	2.0	4.2
7 - 10	86.1	3.4	3.9
10 - 15	183.1	4.7	2.6
15 - 20	162.2	2.7	1.7
20 - 50	235.6	2.2	0.9
50 - 100	36.5	0.1	0.3
100 and over	21.7	*	0.1
Total	826.1	16.5	2.0

*Less than 50 million

1/ Many taxpayers in the two lowest income classes will benefit from the $80 special distribution.

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$2 Billion for Payments to Nontaxpayers.

Individuals whose incomes are so low that they do not pay any income tax will not benefit from the income tax reductions. Because of their low incomes, these persons are likely to have the least flexibility in shifting their consumption patterns as energy becomes relatively more costly.

In order to avoid hardships from higher energy costs, an additional $2 billion of the energy tax revenues has been allocated to provide cash payments of $80 to each adult in this low income, nontaxpayer category. These persons will thus not be forced to reduce their energy consumption, although they, like others, will have the choice. In addition, very low income persons who now pay some income tax and who will receive some benefit from the proposed tax reductions will also be eligible to receive distributions in amounts approximately sufficient, when added to the income tax reduction, to give them a total benefit of about $80 per adult. In total, this payment system is estimated to involve about 26 million adults, 21 million of whom are nontaxpayers under present law, and to provide a total benefit to them of about $2 billion.

Payments will be made as early in 1975 as possible, and if the energy taxes are enacted by April 1st, as the President requests, we believe that payments can be made in the summer. The payments will be made by the Internal Revenue Service and will be based on a return--comparable to a very simple income tax return--filed by those persons eligible. In designing this system for payments, emphasis has been placed on making it simple and speedy. While we should be generous in order to be certain that we have avoided genuine hardships, we should not create an additional welfare system or bureaucracy.

The essential details of this system for cash payments are as follows:

. Adults 18 years or older and not eligible to be claimed as a dependent on an income tax return would file with the Internal Revenue Service a simple income tax return showing their name, social security number and their adjusted gross income for 1974.

- Adults are eligible to file and receive a payment if they are married persons filing a joint return and their adjusted gross income is less than $5,500 and if they are single persons and their adjusted gross income is less than $2,750.

To take account of the fact that some persons eligible for payments will also receive income tax reduction, payments will be made under the following schedule:

For Married Persons Filing Joint Returns

If their income is $4,500 or less,
the payment is------------------------- $160

If their income is more than $4,500,
the payment is reduced by $4 for every
$25 of income over $4,500

For Single Returns

If their income is $2,250 or less
the payment is------------------------- $ 80

If their income is more than $2,250,
the payment is reduced by $4 for
every $25 of income over $2,250

This schedule of payments will result in phasing-out the payments as income rises to the level where the amount of income tax reductions that have been received equal $80, or $160 on a joint return. For example, a married couple with two children and income of $5,600 would have received $185 of income tax reduction and would therefore receive no additional cash payment.

Because the payment system is simple and distinguishes only between single returns and joint returns, there cannot be complete precision and some persons will receive payments which, when combined with income tax reductions, will vary somewhat from the $80 per adult minimum. Imprecision is the price of simplicity. Precision can be obtained only with returns that report the number of personal exemptions and itemized deductions--i.e., a full tax return. Exemptions and deductions are major problems, even with higher income persons, and, as a practical matter, would be unpoliceable on these returns. The $80 per adult minimum is an average and somewhat arbitrary (though generous) figure in the first f 09

instance, and it would be quixotic to construct a second and complicated tax system to see that no family, regardless of size or need, varied slightly from the figure.

The amount of $80 per adult appears adequate to compensate individuals in these low-income classes generally, with a margin for extraordinary situations. The total increase in energy cost for the households represented by the about 26 million adults who will participate in the $80 payment system is estimated to be $1.3 billion, an average of $50 per adult. This group includes 17 million single adults and 9 million married persons who would file jointly. Thus, the average increase in energy cost per filing unit, or roughly speaking, "household," in this category is about $60. Looked at another way, the increase in energy cost may induce an increase in the Consumer Price Index of as much as 2%. A 2% increase for a person with $2,000 income would be only $40, and for a family with an income of $5,000 would be only $100.

In contrast, total benefits of $2.1 billion are proposed for this group by the combination of cash payments and income tax reductions. The basic benefit will be $80 for a single adult and $160 for a married couple.

In addition there are another 7 million adults whose adjusted gross incomes are below $5,000, but who will receive $80 or more entirely through income tax reductions.

Residential Conservation Tax Credit.

To complete the total of $19 billion of tax and cash payment benefits for individuals, a residential conservation tax credit will be allowed for expenditures for thermal efficiency improvements for existing homes. Such improvements include storm windows and doors, and insulation and weather-stripping. The credit will be effective for years 1975, 1976 and 1977 and the maximum credit allowed over that three-year period will be $150 per family. It is estimated that at least 18 million homes will be eligible for the credit and that the total credits will be $500 million annually for the three years.

Corporate Tax Rate Adjustment.

The President proposes that the corporate tax rate, which is now 48%, be reduced to 42%. This will provide benefits of approximately $6 billion. This reduction will be accomplished by reducing the corporate surtax rate on taxable income in excess of $25,000 from the present 26% to 20%. The basic or normal rate applicable to all corporate taxable income will remain at the present 22%. Thus, the first $25,000 of a corporation's taxable income will continue to be taxed at a rate of 22%. The balance will be taxed at a total normal and surtax rate of 42%. We propose that the reduction be made in the high surtax rate because that is where the excessively heavy double tax burden on corporate earnings falls. Corporations that pay only the normal tax rate of 22% are paying tax at about the average top marginal tax rate of individuals.

The reasons for recommending reduction in corporate taxes by means of a rate reduction instead of by some other means are as follows:

Rate reduction is the most neutral way of reducing corporate taxes. Neutrality means that all corporations now paying at a 48% rate will share in the tax reduction, will have maximum flexibility in making business and investment decisions, and can therefore operate most efficiently without regard to tax consequences.

Reduction of the presently high corporate tax rate will be the most meaningful and symbolic signal to business, to investors and to the market of a serious intent to assist business. This type of tax reduction will provide corporations the maximum assurance of continued more favorable climate for the long-term investment decisions that are necessary to ensure prosperity and control inflation.

Rate reduction has a character of permanence. We have proposed to make the permanent tax reduction for individuals in large part by rate reduction. We should do the same for corporations.

The amount of the proposed corporate tax reduction of about $6 billion is approximately the 25 percent corporate share--when divided in the 75%-25% ratio of corporate and individual tax payments--of the total of $25 billion of permanent tax reductions and payments we propose to make. This proposed corporate tax reduction of $6 billion reflects

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the fact that corporations, too, will have an additional burden from higher energy costs. Corporations will bear these additional costs in a variety of ways--higher energy costs reflected in costs of equipment they buy, not all of which they will be able to pass on to consumers; reduced sales and lower prices for some products as demand for energy is reduced; and the additional capital equipment and other costs that will be involved for many corporations in shifting over to lesser energy using processes and products.

As their energy costs increase, business will be under pressure to pass these costs through to consumers and they will be successful in varying degrees. To the extent that this increase in cost is offset by a decrease in income tax cost, a part of that pressure to pass through energy costs to consumers will be relieved.

Corporate tax reduction is seldom politically popular, because it is levied against an inanimate entity. But corporate taxes are borne by people--in part by people generally in the cost of what they buy from corporations, and in part by shareholders in the form of a reduced return on the capital they have invested in the businesses.

In recent years other nations, including our principal trading partners, have recognized this and adopted various "integration" plans which move towards eliminating the double tax on income earned in corporate form. But the United States still imposes a double tax on income earned from a business conducted in corporate form, thus taxing that income more heavily than other income.

As you consider the President's proposal to reduce the corporate rate from 48% to 42%, you should have firmly in mind that income earned in a corporation would still be taxed at 42%, and then taxed again at rates going up to 70% when paid out as a dividend--producing a maximum tax of 82.6%.

I have already discussed the compelling reasons for a reduction in corporate taxes wholly apart from any increase in energy costs. These reasons are real and serious. While corporate tax reduction may be unpopular, the consequences of increasing unemployment and declining productivity will be even more unpopular. They already are.

Conclusion.

It is clear that our country faces serious economic problems. I am confident that we can solve them. They are complicated problems and their solutions will require painstaking attention and balanced judgments. The President's program, which I have outlined to you, provides an integrated blueprint for action. I am confident that as we consider the problems in the objective and professional manner for which this Committee is distinguished, we will be able to reach joint decisions that will set us back on the path to continued prosperity. I look forward to working with you.

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

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For information on submitting tenders: TELEPHONE W04-2604

FOR IMMEDIATE RELEASE January 22, 1975

TREASURY FINANCING PLANS

The Treasury today announced plans for refinancing $3.55 billion of notes held by the public maturing on February 15, and for raising $1.95 billion of new cash, by selling $5.5 billion of securities to the public. The new securities will consist of $3.0 billion of 3-1/4-year notes, $1.75 billion of 6-year notes, and $.75 billion of 25-year bonds callable in 20 years.

The 3-1/4-year notes will be auctioned on Tuesday, January 28. They will be dated February 18, 1975, and will mature May 15, 1978. The 6-year notes will be auctioned on Wednesday, January 29. They will be dated February 18, 1975, and will mature February 15, 1981. The bonds will be auctioned on Thursday, January 30. They will be dated February 18, 1975, and will mature February 15, 2000, callable by the Treasury on and after February 15, 1995.

Competitive tenders for the notes and bonds must be expressed in terms of annual yield. Noncompetitive tenders for each issue will be accepted in amounts of $500,000 or less. The payment date for the notes and bonds will be February 18, except that payment for up to 50 percent of the bonds may be deferred until March 3, 1975. Payments may not be made through tax and loan accounts.

In addition to the holdings of the general public, Federal Reserve and Government accounts hold $1.7 billion of the notes maturing on February 15. Additional amounts of the new notes and bonds may be issued at the average price to Government accounts and to Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

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FOR IMMEDIATE RELEASE January 22, 1975

DETAILS OF TREASURY NOTE AND BOND AUCTIONS

The notes and bonds to be auctioned to the public to provide funds for refunding the $3.55 billion of publicly held notes maturing February 15 and to raise cash will be:

> up to $3.0 billion of 3-1/4-year Treasury Notes of Series D-1978 dated February 18, 1975, due May 15, 1978 (CUSIP No. 912827 EC2) with interest payable on November 15, 1975, and thereafter on May 15 and November 15,
>
> up to $1.75 billion of 6-year Treasury Notes of Series C-1981 dated February 18, 1975, due February 15, 1981 (CUSIP No. 912827 EDO) with interest payable on February 15 and August 15, and
>
> up to $0.75 billion of 25-year Treasury Bonds of 1995-2000 dated February 18, 1975, due February 15, 2000, callable at the option of the United States on any interest payment date on and after February 15, 1995 (CUSIP No. 912810 BS6) with interest payable on February 15 and August 15.

The coupon rates for the notes and bonds will be determined after tenders are allotted.

Additional amounts of the new notes and bonds may be issued at the average price of accepted tenders to Government accounts and to Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

The notes and bonds will be issued in registered and bearer form in denominations of $1,000, $5,000, $10,000, $100,000 and $1,000,000. They will be issued in book-entry form to designated bidders. Delivery of bearer notes will be made on February 18, 1975. Delivery of bearer bonds will be made on February 18, 1975, and March 3, 1975.

Tenders for the 3-1/4-year notes will be received up to 1:30 p.m., Eastern Standard time, Tuesday, January 28, tenders for the 6-year notes will be received up to 1:30 p.m., Eastern Standard time, Wednesday, January 29, and tenders for the bonds will be received up to 1:30 p.m., Eastern Standard time, Thursday, January 30, 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 January 27 for the 3-1/4-year notes, January 28 for the 6-year notes, and January 29 for the bonds. Tenders must be in the amount of $1,000 or a multiple thereof. Each tender must state the yield desired, if a competitive tender, or the term "noncompetitive", if a noncompetitive tender.

Competitive tenders for the notes and bonds must be expressed in terms of annual yield in two decimal places, e.g., 7.11, 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 securities 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 3-1/4-year notes, 98.501 for the 6-year notes, and 93.751 for the bonds 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.

Fractions may not be used in tenders. The notation "TENDER FOR TREASURY NOTES (Series D-1978 or C-1981)" or "TENDER FOR TREASURY BONDS" 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, 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 Tuesday, February 18, 1975, 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

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deferred until March 3, 1975, as set forth in the following paragraph. Payment must be in cash, 5-3/4% Treasury Notes of Series A-1975 or 5-7/8% Treasury Notes of Series E-1975, which will be accepted at par, in other funds immediately available to the Treasury by February 18, 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 , February 11, 1975, 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) Monday, February 10, 1975, 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 March 3, 1975, the bidder must indicate on the tender form the amount of bonds allotted on which payment will be deferred. Accrued interest from February 18 to March 3, 1975, will be charged on the deferred payment at the coupon yield established for the bonds. 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 (in addition to the bonds on which payment is deferred) 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.

Ownership of February 15, 1975 Maturities

(In millions of dollars) 413

	5-3/4% Note	5-7/8% Note	Total
Commercial banks................	1,314	704	2,018
Mutual savings banks............	19	10	29
Insurance companies:			
Life...........................	7	1	8
Fire, casualty and marine.....	58	15	73
Total, insurance companies..	65	16	81
Savings and loan associations...	83	13	96
Corporations....................	181	100	281
State and local governments.....	249	162	411
All other private investors.....	549	89	638
Total, privately held.......	2,460	1,094	3,554
Federal Reserve Banks and Government Accounts..........	1,555	128	1,683
Total outstanding...............	4,015	1,222	5,237

Office of the Secretary of the Treasury
Office of Debt Analysis

January 22, 1975

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

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FOR IMMEDIATE RELEASE January 23, 1975

ANTIDUMPING INVESTIGATION INITIATED ON RECHARGEABLE SEALED NICKEL-CADMIUM BATTERIES FROM JAPAN

Assistant Secretary of the Treasury, David R. Macdonald, announced today the initiation of an antidumping investigation on imports of rechargeable sealed nickel-cadmium batteries from Japan.

Notice of this action will be published in the Federal Register of January 24, 1975.

The Treasury Department's announcement followed a summary investigation conducted by the U.S. Customs Service after receipt of a complaint alleging that dumping was occurring in the United States. The information received tends to indicate that the prices of the merchandise to unrelated U.S. purchasers are less than the prices of such or similar merchandise sold in the home market.

During the period January through December 1974, imports of the subject merchandise were valued at approximately $4 million.

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

c/15

FOR IMMEDIATE RELEASE January 23, 1975

TOP-LEVEL ECONOMIC BRIEFING SCHEDULED BY TREASURY, USIA

WASHINGTON -- More than 400 U.S.-based foreign correspondents have been invited to a top-level economic briefing Monday, January 27, the Treasury Department and the U.S. Information Agency announced jointly today. The briefing will be held in the West Auditorium at the Department of State.

The keynote for the briefing on the "United States Economy" will be sounded by Secretary of the Treasury William E. Simon who will be followed by other top Administration economic experts speaking to the subject.

The program will be capped with a panel discussion ranging from "Domestic Energy Imperatives" to "Petrodollar Recycling and Worldwide Oil Outlook."

USIA Director James Keogh, who will be chairman of the program, said that foreign correspondents have been invited with the objective of improving understanding abroad of the strengths of the U.S. economy and the implications of the Administration's policies relating to inflation, the recession and the energy problem.

He added that the briefing is intended to convey the American people's traditional determination to meet and solve major national problems.

The briefing schedule is as follows:

10:30 a.m.	Introduction: Mr. James Keogh, Director, USIA
	Secretary of the Treasury William E. Simon "Economic Overview and Pattern of Remedial Actions" (Secretary Simon will answer questions following his presentation)
11:00	Mr. Alan Greenspan, Chairman of the Council of Economic Advisers "Economic Facts and Figures and Future Trends" (Mr. Greenspan will answer questions following his presentation)

WS-205

-More-

11:30 a.m.	Mr. Jack F. Bennett, Under Secretary of the Treasury for Monetary Affairs "International Aspects of the U. S. Economy" (Mr. Bennett will answer questions following his presentation)
12:00 Noon	Charles W. Robinson, Under Secretary for Economic Affairs, Department of State "Introduction to U. S. Energy Strategy" (Mr. Robinson will answer questions following his presentation)
	PANEL:
	Mr. Thomas O. Enders, Assistant Secretary for Economic and Business Affairs, Department of State "Energy -- Consumer Cooperative Efforts and Producer-Consumer Relations"
	Mr. Eric **Zausner**, Acting Deputy Administrator, Federal Energy Administration "Domestic Energy Imperatives"
	Mr. Gerald L. Parsky, Assistant Secretary of Treasury for Trade, Energy and Financial Resources Policy "Petrodollar Recycling and Worldwide Oil Outlook"
	(Messrs. Enders, Zausner and Parsky will respond to questions as a panel following their presentations)

Invitations to foreign correspondents to attend the briefing are being extended by USIA's Foreign Press Centers in Washington and New York City.

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FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
WASHINGTON, D.C., THURSDAY, JANUARY 23, 1975

Having completed an initial consideration of the President's economic and energy proposals, I would like to turn this morning to a second subject of interest to this committee: the need to raise the Federal debt ceiling.

I would like to discuss this subject within the context of a broader discussion about the alarming growth of Government in this country, for the sizeable increase in the Federal debt that is needed this year reflects not only the impact of the recession upon revenues, but also an enormous increase in Federal spending over the years.

Throughout our history, the ideal form of government for most Americans has been that envisioned by Thomas Jefferson in his first inaugural address:

"...a wise and frugal government, which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvements, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government", declared Mr. Jefferson.

Certainly the world has changed since Jefferson's day, but one has to wonder whether the changes--as drastic and complicated as they have been--justify the ominous trends toward Big Government in this country.

WS-203

Consider for a moment just a few facts and figures:

-- It took 186 years for the Federal budget to reach the $100 billion mark, a line we crossed in 1962, but only nine more years to reach the $200 billion mark, and then only four more years to break the $300 billion barrier.

-- In 1930, just before the New Deal, government spending accounted for just 12 percent of our gross national product. Today, government at all levels absorbs over 32 percent of our gross national product, and if present trends continue, government could account for as much as 60% of our GNP by the year 2000. I deeply believe that government of that size could rob us not only of our economic freedoms but our personal freedoms as well.

-- As government domination has increased, the bureaucracy has also grown so that today one out of every six working men and women in this country works directly for the government, whether at the Federal, state or local level.

-- Consider, too, the trend toward deficit financing by the Federal Government. Before the New Deal, Americans ran their government on a business-like basis: except in war years, the budget was in surplus four years out of every five years. In recent years, by contrast, the budget has been in almost continual deficit, so that when we close the books on fiscal year 1975, we will find that we have had only one surplus in the last 15 years.

I do not mean to imply that Government should not play a positive and constructive role within our society. To the contrary, the Government must be a strong and effective leader in helping to solve the twin crises we now face in the economic and energy fields. But the key to a successful recovery and to the long-run health of our country, I would assert, lies in the direction of more freedom from government, not less; greater personal wealth and business profits, not less; and greater investment in capital and equipment, not less -- in short, in the revival of the free enterprise system which has always provided people, rich and poor alike, with greater opportunities for progress than any other system known to man.

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The National Debt

One clear reflection of the trend toward Big Government and our incessant desire to spend more than we are willing to pay for has been the growth of the national debt. Thirteen years ago, the total national debt stood at just a little over $300 billion. By the end of the coming fiscal year, the debt will have doubled. Clearly we cannot continue in this manner; we must set a new direction for this country and stick to it now and in the future.

That is why it is an especially sad duty for me today to come to the Congress to ask for a large increase in the ceiling on the national debt. For many Americans the debt ceiling and the debt itself are barometers, symbols of how well we are managing our affairs, so that an increase in the debt ceiling is never welcome news. Moreover, we should never forget that we are already paying $31 billion a year in taxes in order to pay the interest on the debt and that every increase in the size of the debt means higher costs for us and for our children.

As you know, the current limit of the Federal debt is $495 billion. That is a temporary limit which will expire on March 31; in the absence of legislation, the limit will revert on April 1 to $400 billion.

Our current estimates show that the Government will exceed the temporary limit of $495 billion on February 18 -- less than one month from today. Thus, there is a pressing need for immediate action on the part of the Congress.

The Administration proposes that Congress act now to raise the debt ceiling to $604 billion. Barring unforeseen developments, that new ceiling should be adequate to carry us through June 30, 1976, which would be the end of fiscal year 1976.

For your background, I am submitting to the committee this morning four tables which usually accompany our discussion of the debt ceiling:

Table 1 shows actual operating balances and the debt which is subject to limit through December 31, 1974. It also shows the estimated debt subject to limit at the end of each month through the end of fiscal year 1975. As you will note from this table, a ceiling which would be adequate for the remainder of fiscal year 1975 would have to be set no lower than $531 billion. Our estimates are based on the conventional assumptions of a $6 billion cash balance and a $3 billion margin for contingencies.

Table 2 extends these estimates through fiscal year 1976, using the same assumptions.

Table 3 shows the budget estimates for fiscal years 1975 and 1976, providing you with the basis for the figures in the earlier tables.

Table 4 presents our tentative revenue estimates for fiscal years 1975 and 1976.

As all of you know, the rapid downward slide of the economy has reduced Federal revenues below our original expectations in January of 1974. As a result, Federal deficits are mounting rapidly and are causing the current squeeze on the debt ceiling. A slowdown in the economy had been anticipated, but the current recession is steeper and will probably last longer than first expected. We have thus been required to reduce our fiscal year 1975 estimates of individual income taxes by $6.7 billion, reflecting higher unemployment, shorter work-weeks, less overtime, and fewer second jobs. We have also reduced our estimates of corporate income taxes by $3.7 billion, due in large measure to the decline in corporate profits.

Most of you are aware that a number of corporations are switching their inventory accounting methods from "first in, first out" to "last in, first out." LIFO accounting methods exclude a large portion of the effect of inventory price increases from the calculation of business profits and thus lessen corporate tax liability. Original estimates of the debt had anticipated that many firms would make this switch, so that it has not had an appreciable impact upon our revision of revenue estimates. For the information of the Members, however, I would like to point out that the trend toward LIFO accounting methods in fiscal year 1975 is expected to reduce our total revenues by $3-4 billion.

The changes in forecasts that we are making this year are similar in nature to those that were made in past recessions. In both the 1969-1970 and 1960-61 recessions, corporate and individual income tax collections fell well below estimates. On one of those occasions, fiscal year 1962, an increase in the debt ceiling was also needed prior to the expiration of the one then in effect.

The new debt ceiling we are requesting today incorporates our tentative estimates for both Federal revenues and expenditures, based upon our projections for the economy over the next 18 months and upon the economic and energy proposals that the President has presented to the Congress. As I have noted earlier, it also includes the traditional $6 billion cash operating balance and the $3 billion margin for contingencies. It does not take account of new spending programs which might be enacted.

Let me point out that the debt figures also include Treasury borrowing to finance the Federal Financing Bank. The Bank has one marketable issue of $1.5 billion now outstanding and maturing at the end of March. In the future, I believe that the Bank should borrow from the Treasury rather than going into the market. The Bank's cost of borrowing is somewhat greater than Treasury's. Such additional interest costs are unnecessary at any time, but especially so now. The anticipated large budget deficits for fiscal years 1975 and 1976 will put upward pressure on interest rates. Federal Financing Bank market borrowing would be likely to put somewhat more pressure on rates than the equivalent Treasury borrowing. Clearly, Federal and federally assisted borrowing should be financed with the least cost to the Government and the taxpayers.

Some Members of the Committee may think that the new ceiling is too high and the deficits too big. Let me emphasize that there is no one in Washington today who feels more strongly than either the President or I that deficits of the magnitude we are now facing are horrendous. We believe that many of the economic troubles we have today are rooted in more than a decade of excesses in fiscal and monetary policy. To continue the rapid upward momentum of Government growth over an indefinite period would erode the very foundations of our economy and eventually lead us to social ruin. But we also recognize that because of the recession, receipts are inevitably going to be lower than we would like and we believe that in order to stimulate the economy, we must temporarily -- and I stress the word temporarily -- cut taxes and leave more money in the private spending stream. Big Federal deficits in fiscal years 1975 and 1976 are thus a result of both the recession and the cumulative cost of the many Federal spending programs that have been enacted in recent years.

Other Members of this Committee may feel that to the contrary, Federal outlays should be increased significantly this year so that the deficits and, therefore, the debt ceiling should be much higher than we propose. The President strenously opposes this view. If we open up the sluice gates on Federal spending during the coming year, we could seriously overheat the economy and insure that further down the road we will be riding the tiger of inflation once again -- and inflation of an even more virulent and powerful nature than what we have had over the past year. That is why the President has proposed a moratorium on all new spending programs outside of the energy field and why he intends to veto bills which violate that moratorium.

In requesting a new ceiling that would be adequate to meet our borrowing needs through the end of fiscal year 1976, I would point out that the Congress has already assented to the idea of giving advance approval to a debt ceiling that would cover an entire fiscal year. In landmark legislation passed in 1974, the Congressional Budget and Impoundment Control Act, the Congress set up a timetable for spending and revenue decisions. When that timetable takes effect, the Congress by May 15 of each year is to have completed action on the first concurrent resolution providing new budget authority, setting revenue figures and establishing the public debt limit for the fiscal year beginning that October 1. A second concurrent resolution and reconciliation bill, if needed, must be enacted by late September. Thus, prior to the new fiscal year, the debt limit will be set for that entire fiscal year. This is essentially the idea that we are asking the Congress to approve for fiscal year 1976, and we strongly urge your support for this proposal.

Impact of Deficits on the Capital Markets

In my testimony yesterday, I promised that I would return to the question of the impact that large Federal deficits may have upon the private capital markets. There is a considerable dispute among economists and market specialists on this question. My own view is that the deficits anticipated by the President's program will cause some strains in the market but those strains should be manageable. However, in the event that the Congress is unwilling to accept the strong discipline the President is trying to impose upon Federal spending, the higher deficits that will result will certainly threaten the private capital markets with intolerable burdens. We could quickly clog up those markets and create genuine havoc in the nation's financial system.

Let me explain why the anticipated deficits already approach the upper limit of demands that the Government should place on the financial markets. Normally, financial conditions ease substantially in a recession, and normally they remain easy for sometime after the recovery gets underway. This happens because private demands for credit fall off at the same time that the Federal Reserve moves to maintain or increase the rate of growth in money and credit.

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Accordingly, interest rates decline and credit becomes more readily available -- all of which is part of the process by which the economy pulls out of a recession and regains the road to prosperity. A decline in interest rates, in both the short-term and long-term markets, has in fact been underway for several months.

There are reasons to question, however, whether the decline in interest rates will continue.

In the first place, current pressures on the financial markets from the private sector are heavier than normal for a recession. The borrowing needs of only a few sectors have moderated and the financing of oil consumption both here and abroad and the external financing needs of business have remained extraordinarily large. As I pointed out yesterday, the current inflation plus the inflation of recent years has helped to produce a marked decline in profits and has seriously eroded the liquidity base of both households and businesses. As a result, huge amounts of credit are needed in the private sector just to sustain existing levels of economic activity. Moreover, with the stock market so low that many issues are selling well below book value, new equity financing is not a feasible source of funds. Therefore, there is unusually high demand from the private sector -- unusual at least for this stage of the business cycle -- for new long-term debt issues.

The Members of this Committee have probably read that borrowing demands are declining in the private sector and therefore, according to some analysts, Federal borrowing should not present a problem in the capital markets. Private short-term credit demands are indeed declining, but the point is that they are not declining as much as we would expect in a normal recession and corporate bond borrowings are running at levels considerably above the totals of any other previous year. Our latest projections show that new corporate bond issues, which rose from $12½ billion in 1973 to $25 billion in 1974, will advance even further to some $30 billion or more in 1975. In addition, while some slackening in demand for short-term credit on the part of business is underway, the total for 1975 is still expected to be one of the highest yearly totals on record.

The second factor is the Federal Government. Our present estimate is that under proposed programs, the Treasury during this calendar year will be coming into the capital markets for almost $70 billion of net new financing, of which $65 billion will be marketable securities (Table 5). Federally sponsored agencies may account for another $10 billion in borrowing. This is an enormous sum.

Perhaps the best way to grasp the enormity of these requirements is to note that this year the Federal Government will be raising more net new money in the capital markets than raised by all borrowers, public and private, last year -- or any other year in the past.

In the Office of Debt Analysis at the Treasury Department, we have charted the level of government borrowing in the debt capital markets over a period of more than two decades. The results of that study can be found in Table 6 attached. This table clearly illustrates the progressive domination of the private capital markets by the Federal Government. In fiscal years 1955-59, the Federal Government accounted for 20 percent of net funds in the capital markets; in fiscal years 1970-74, the Federal share grew to 45 percent. In fiscal year 1976, we anticipate that even with the moratorium on new spending and other spending control measures proposed by the President, total Federal borrowing will account for 66 percent of the capital markets, and if we add to that amount the anticipated borrowing by State and local governments, total government borrowing during the coming fiscal year will be 80 percent of the capital markets. Only 20 percent will be left to private industry in a financial market that has always been the centerpiece of our free enterprise system. This is an alarming situation, reflecting the even more alarming growth of government in this country.

There are several ways in which the strains created by Federal borrowing could be eased. For instance, the deficits could be financed without difficulty and interest rates could decline even farther if the recession becomes deeper than we expect, if inflation subsides more than we anticipate, if the OPEC nations put a larger amount of their accumulated funds into investments in this country, or if the American people save more and spend less of their rebate. Some financial analysts expect such developments even with a set of economic projections similar to our own. We cannot, however, be sure of any one of these events occurring and therefore it would be foolish to base our policy decisions upon such assumptions.

Moreover, we must be aware of what might happen if the Federal Government does begin to elbow other borrowers out of the market:

-- Housing, for example, is always at the end of the line in the credit markets and thus the first sector to be crowded out. We now expect that a recovery in housing starts will get underway by mid-year, but we cannot overlook the continuing danger that

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excessive government borrowing, coupled with a high demand coming from a private sector that is suffering from illiquidity, could drive up interest rates and seriously disrupt this recovery or even abort it at an early stage.

-- Business firms of marginal financial strength, especially small businesses, would also be cut off from the supply of credit if the Federal Government completely dominates the capital markets. This would further weaken the credit-worthiness of such firms. Lenders would then intensify their preference for high quality debt issues, and marginal firms would be unable to obtain enough credit. Their ability to expand would therefore be limited and bankrupticies could result.

Let me stress that I am not predicting these events. I am only suggesting the scenarios that could unfold if we ignore the President's call for fiscal discipline and increase Federal deficits beyond their projected levels. It is too early to tell precisely what will happen this year in the credit markets, but we do know that government will pre-empt most of this market and we must constantly be alert to the possibility that unrestrained government borrowing could drive the economy into an even worse mess than it is today.

Some observers suggest that it would be easy to avoid these difficulties -- at least for now -- if the Federal Reserve were to adopt more aggressively easy monetary policies. In other words, to prevent the Federal Government's demands from crowding others out of the market, the Federal Reserve would make the market larger by increasing the total supply of money and credit. This approach, however, is a sure formula for still higher inflation rates when the recovery gets into full swing -- if not sooner. It does not solve our problems, it only postpones them, and when they recur they could be much worse than they are today. Thus, I would suggest to you that over-stimulative monetary policies are no more the answer to our troubles than over-stimulative fiscal policies.

This dilemma, I would hope, emphasizes for all of the Members of this Committee the fundamental importance of a tough policy to restrain the growth of budget outlays by reducing less urgent programs and postponing new initiatives that are not included in the President's package of economic and energy policies. We already have enough problems on our hands -- many of them created by irresponsible government policies over the past decade -- so that we should be sensible enough to avoid the shoals of even more serious troubles.

Let me review for a moment the staggering size of the deficits that are already contemplated. Under current policies, our projection now shows that the deficit for fiscal year 1975 is likely to be close to $35 billion and in fiscal year 1976 the deficit promises to be the biggest in peace time history -- about $50 billion. That's a total of approximately $85 billion over two fiscal years, an amount that hardly anyone can welcome gladly. But I would remind you that even these deficits are significantly below what will happen without the cap that the President is seeking to impose on Federal expenditures. The ceiling of 5 percent on social security increases as well as other transfer programs tied to the Consumer Price Index would save the government approximately $6 billion. In addition, we can realize savings of more than $11 billion in the budget reductions that the President has requested and through other actions planned or to be proposed by the Administration. Thus, overall, the President's proposed actions would save $17 billion in expenditures. If the Congress ignores this call and overrides the President without making savings in other areas, the additional $17 billion in deficits would make the combined deficit figure for fiscal years 1975 and 1976 over $100 billion -- almost as much as the total deficits of the previous ten years combined.

Unfortunately, even these deficits do not tell the full story of Federal borrowing, for they do not include the borrowing figures for off-budget programs -- the myriad of obligations issued by Federally sponsored agencies or guaranteed by Federal agencies. From fiscal years 1965-1974, the cumulative defit of the unified budget was $102.9 billion. During that same period, the cumulative borrowing for off-budget programs was $142 billion.

I cannot over-emphasize the dangers that may be created by such mammoth deficits at the Federal level, nor can I urge upon you more strongly a plea for maximum fiscal discipline during the life of the 94th Congress. It is absolutely imperative that during the 1970s we turn this country's fiscal policies around.

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The Capital Investment Challenge

If time permitted today, I would very much like to discuss with you in greater detail the impact that the growth of government has had upon our free market system:

- -- The way that excessive fiscal and monetary policies stretching back to the mid-1960s and earlier have created strong, underlying forces of inflation in our economy, forces that we must contend with for many years to come;
- -- The way that excessive governmental regulation has discouraged new production and growth in many of our industries, particularly in the fields of agriculture and energy;
- -- The way that the wage and price controls of the early 1970s disrupted the economy and have left us a residue of troubles that are still working their way through the system;
- -- The way that the government's tax structure has encouraged consumption at the expense of adequate savings and investment.
- -- The way that broad government domination of many of the industries in this nation has stifled individual initiative and spawned a new breed of business managers who seem more eager to rely upon the judgments of a GS-16 in Washington than upon their own judgments and competitive instincts. To me, there is nothing more distressing than to see businessmen trade their economic freedoms to the government in exchange for financial security. As Dr. Franklin once reminded us, "They that can give up essential liberty to obtain a little temporary safety deserve neither liberty nor safety."

Rather than dwelling further on this point, however, I ask you to consider the net result of this kind of government growth as well as other social forces which have gained favor in the United States.

The net result, I would suggest, is that we have tilted our great economic machine in the wrong direction. Instead of continually renewing and enlarging our economic foundations, we have allowed them to rust and crumble while we have enjoyed a long binge of over-spending and over-consumption. The bills are coming due today, and unless we soon reverse these trends, the bills can only grow larger in the future.

Once again, let's look at the facts. From 1960 through 1971, as an accompanying table shows (Table 7), annual capital investment in this country averaged approximately 18 percent of our gross national product--the smallest figures of any major industrialized nation in the Free World. In Japan, for instance, annual capital investment averaged over 33 percent of the GNP, while in Germany it averaged 26 percent and in France, 22 percent. Thus, the amount of its annual income that the United States was willing to put back into new plant and equipment was smaller than in most of the nations with whom we compete.

In most recent figures that are available for international comparisons--figures showing investments in 1973--indicate an even bleaker investment picture for the United States. In that year, our investment in private industry sank to 14.9 percent of our GNP, lower than any other major industrialized nation except Italy.

Higher rates of capital investment do not guarantee lower rates of inflation. Japan, for instance, has the highest rate of inflation among the countries mentioned, even though it has also had the highest level of capital investment. But there is a close correlation between the rate of capital investment and the increase in a nation's productivity. The annual growth in productivity during the 1960s and early 1970s averaged more than 10 percent in Japan, almost 6 percent in Germany and France, and only 3.3 percent here in the United States. As you can see, the U.S. had the lowest level of capital investment among these countries and also the lowest rate of growth in productivity. I need not explain to this committee that it is growth in productivity which determines how much of an increase in living standards that the American people can achieve over time.

It seems fair to observe that the current and prospective level of capital investment in America simply will not sustain the kind of economic growth and productivity that we need for the future, for our capital investment needs are growing, not shrinking. Our conventional need for replacing plant and equipment is higher now than ever before. In addition, enormous amounts of new capital will be needed to improve our housing stock, provide new systems of urban transportation, rebuild some of our basic industries, clean up the environment, and especially to achieve self-sufficiency in energy.

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Estimates of the actual amounts needed vary considerably. Estimates for the energy industry alone over the next decade range from three quarters to one trillion dollars. One estimate that I have seen for our total needs between now and 1985 in all fields is $3 trillion. That figure is difficult to comprehend, but the message is clear: America must soon turn away from the consumption ethic and return to the ethics of thrift and investment.

While the challenge of capital formation must be solved primarily in the private sector, the Federal Government has a positive responsibility to help, and there are a number of ways that I believe we can help:

-- First, we can and must take steps to prevent the recession from deepening to intolerable levels.

-- Second, we must not abandon the more long-range fight against inflation, for inflation is a bitter enemy of savings and investment and exacts a heavy toll on economic growth.

-- Third, we must enact legislation that will create greater incentives for capital investment, that will allow our financial institutions to operate more flexibly, and will permit our corporations to earn enough profits to pay good wages and also invest in the future.

-- Fourth, we must lift the heavy hand of Federal regulation from the many areas where it restricts the efficiency and growth of the free enterprise system. Competition is still the best route to an efficient and productive economic system, and that in turn remains the best means we have of fighting inflation and creating more jobs.

Finally, over the long run, we must restore a reasonable balance to the Federal budget and even seek to achieve budgetary surpluses in better years so that we can free up a maximum amount of capital for a savings and investment.

Many people are worried today that our economic system will fail. I do not foresee the immediate collapse of our system. It is too strong and resilient to fall quickly. But the signs of erosion are there. It would take years and perhaps decades to dissipate the accumulated strengths of our system -- but it could happen if we don't make the fundamental decisions now that are necessary to preserve and strengthen our free enterprise system.

Thank you.

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TABLE 1

PUBLIC DEBT
SUBJECT TO LIMITATION
FISCAL YEAR 1975
Based on Estimated
Budget Receipts of $279 Billion,
Outlays of $314 Billion,
and Deficit of $35 Billion

($ Billions)

	Operating Cash Balance	Public Debt Subject to Limitation	With Usual $3 Billion Margin For Contingencies
1974		ACTUAL	
June 30	9.2	476.0	
July 31	6.5	475.6	
Aug. 31	5.4	482.1	
Sept.30	8.7	481.7	
Oct. 31	2.2	480.5	
Nov. 30	3.1	485.7	
Dec. 31	5.9	493.0	
1975		ESTIMATED	
Jan. 31	6	495	
Feb. 28	6	502	505
Mar. 31	6	507	510
Apr. 30	6	510	513
May 31	6	522	524
June 30	6	528	531

January 23, 1975

TABLE 2

PUBLIC DEBT
SUBJECT TO LIMITATION
FISCAL YEAR 1976
Based on Estimated
Budget Receipts of $297-300 Billion,
Outlays of $348-350 Billion,
and Deficit of Approximately $50 Billion

($ Billions)

	Operating Cash Balance	Public Debt Subject to Limitation	With Usual $3 Billion Margin For Contingencies
1975		ESTIMATED	
June 30	6	528	531
July 31	6	532	535
Aug. 31	6	538	541
Sept 30	6	544	547
Oct. 31	6	551	554
Nov. 30	6	558	561
Dec. 31	6	567	570
1976			
Jan. 31	6	571	574
Feb. 29	6	577	600
Mar. 31	6	583	586
Apr. 30	6	584	587
May 31	6	596	599
June 17(Peak)	6	601	604
June 30	6	596	599

January 23, 1975

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TABLE 3

BUDGET SUMMARY

($ Billions)

	Actual: 1974	Estimated: 1975	Estimated: 1976
Receipts:			
Federal Funds.....................	181	186	198-200
Trust Funds.......................	105	119	126-127
Inter-fund transactions...........	-21	-26	- 28
Total budget receipts...........	265	279	297-300
Outlays:			
Federal Funds.....................	199	229	253-255
Trust Funds.......................	91	110	123-124
Inter-fund transactions...........	-21	-26	- 28
Total budget outlays............	268	313	348-350
Surplus or deficit (-):			
Federal Funds.....................	-18	-43	-55 approx.
Trust Funds.......................	14	8	5
Total budget....................	- 4	-35	-50 approx.

January 23, 1975

NOTE: Figures are rounded and may not add to totals.

TABLE 4

Estimated Unified Budget Receipts

Fiscal Years 1975-1976

($ billions)

	Current estimate includi proposed legislation Fiscal Years	
	1975	1976
Individual income tax	118	106
Corporation income tax	38	48
Employment taxes and contributions	75	80
Unemployment insurance	7	7
Contributions for other insurance and retirement	4	5
Excise taxes	20	32
Estate and gift taxes	5	5
Customs duties	5	8
Miscellaneous receipts	6	7
Total budget receipts	279	298 appro

Office of the Secretary of the Treasury
Office of Tax Analysis

January 23, 1975

Note: Figures are rounded and may not add to totals

TABLE 5

TREASURY MONEY MARKET BORROWING
(Including Foreign nonmarketable securities)
(In billions of dollars)

TABLE 5

Calendar Year	First Half				Second Half			
	Gross New Issues 1/	Maturities 2/	Net New Money	Peak Increase in Borrowing	Gross New Issues 1/	Maturities 2/	Net New Money	Peak Increase in Borrowing
1970	$22.5	$24.1	$-1.5	$4.2	$31.5	$15.2	$16.3	$16.6
1971	27.7	23.9	3.9	4.3	36.6	14.6	22.0	22.0
1972	12.6	15.2	-2.5	7.0	21.3	7.3	14.0	15.5
1973	16.9	15.8	1.1	9.6	20.2	15.1	5.1	5.1
1974	16.8	21.8	-5.0	3.9	32.5	17.8	14.7	14.7
1975	45	17	28	31	48	11	37	37
1976	49	23	24	28				

Calendar Year	Full Year			
	Gross New Issues 1/	Maturities 2/	Net New Money	Peak Increase in Borrowing
1970	$54.0	$39.3	$14.8	$15.1
1971	64.3	38.5	25.9	25.9
1972	33.9	22.5	11.5	13.0
1973	37.1	30.9	6.2	6.2
1974	49.3	39.6	9.7	9.7
1975	93	27	65	65

1/ Includes increases in regular bills.
2/ Includes paydowns in regular bulls.

Office of the Fiscal Assistant Secr.
January 21, 1975

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TABLE 6

Net Funds Raised in the Capital Markets by Major Sector (fiscal years, billions of dollars)

TABLE 6

	U.S. Treas. & Financing Bank	Federal & sponsored agencies	Total Federal sector	State & local	Corp. & foreign 1/	Total securities	Federal sector as a % of total securities	Gov't. sector as % of total securities 3/
1954	3.6	1.7	5.3	5.5	3.4	14.2	37.4	76.0
1955	1.7	- .1	1.7	5.4	2.6	9.7	17.4	73.1
1956	-4.3	.6	-3.7	4.6	3.3	4.1	-	21.0
1957	-3.6	.9	-2.7	4.0	5.7	7.0	-	18.6
1958	6.3	.8	7.1	5.1	6.9	19.2	37.1	63.9
1959	8.0	1.4	9.3	5.7	4.7	19.7	47.5	76.4
1960	.8	2.0	2.8	5.7	3.5	12.1	23.5	70.7
1961	2.0	.1	2.1	4.9	5.0	12.0	17.7	58.5
1962	8.8	2.4	11.2	6.0	5.5	22.7	49.4	75.6
1963	6.4	1.1	7.6	5.5	5.5	18.6	40.7	70.3
1964	2.7	1.5	4.2	5.2	3.8	13.2	31.8	71.4
1965	3.1	2.2	5.4	6.9	5.2	17.5	30.8	70.4
1966	-1.0	6.7	5.7	7.3	9.2	22.2	25.8	58.9
1967	.6	2.6	3.3	6.0	12.2	21.5	15.2	43.3
1968	18.2	5.5	23.8	7.2	15.1	46.1	51.6	67.3
1969	-1.9	5.7	3.8	12.0	14.7	30.5	12.4	51.8
1970	6.8	8.1	14.9	9.7	14.8	39.4	37.9	62.4
1971	20.5	2.7	23.2	15.0	23.0	61.3	37.9	62.4
1972	19.6	8.7	28.2	15.6	15.8	59.7	47.2	73.5
1973	18.5	14.3	32.8	12.6	10.5	55.9	58.6	81.2
1974	2.1	21.3	23.3	16.7	15.6	55.6	41.9	72.0
1975e2/	43.8	10.9	54.7	12.6	26.3	93.6	58.4	71.9
1976e2/	61.6	12.2	73.8	14.6	22.7	111.1	66.4	79.6

Office of the Secretary of the Treasury
Office of Debt Analysis

January 22, 1975

Source: FY 1954-1974 data based on FRB "Flow-of Funds."
1/ Bonds issued by nonfinancial corporations.
2/ Assumes adoption of President's "State of the Union" program, with budget deficits of $35 billion in FY 1975 and $50 billion in FY 1976.
3/ Includes State and local as part of government sector.

TABLE 7

International Comparisons of Investment and Productivity, 1960 through 1973

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	Average Private Investment as Percent of GNP (Excl. Defense Expenditures)	Average Annual Growth in Productivity (Output Per Man-Hour)
United States	18.0%	3.3%
Canada	22.4	4.3
Japan	33.4	10.7
France	24.9	5.9
Germany	26.2	5.8
Italy	21.4	6.2
U. K.	18.9	4.2
OECD less U.S.*	24.2	6.3
All OECD*	20.5	4.8

* Figures in the first column for the OECD country groups represent private investment as a percent of GNP including defense expenditures and cover the 1960-1971 period only.

Sources: OECD and national sources; Bureau of Labor Statistics

Department of the TREASURY NEWS
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FOR RELEASE ON DELIVERY JANUARY 23, 1975

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE HOUSE WAYS AND MEANS COMMITTEE
WASHINGTON, D.C., THURSDAY, JANUARY 23, 1975
(PETROLEUM IMPORT FEES)

MR. CHAIRMAN, AT YESTERDAY'S HEARING YOU ASKED THAT I ADDRESS MYSELF THIS MORNING TO THAT PORTION OF THE PRESIDENT'S ENERGY PROPOSALS RELATING TO PETROLEUM IMPORT LICENSE FEES.

LEGAL AUTHORITY

THE ACTION THE PRESIDENT PROPOSES TO TAKE IS SPECIFICALLY AUTHORIZED UNDER SECTION 232 OF THE TRADE EXPANSION ACT OF 1962, AS AMENDED BY THE RECENTLY ENACTED TRADE REFORM ACT OF 1974.

SECTION 232 PROVIDES THAT IF THE SECRETARY OF THE TREASURY, AFTER APPROPRIATE INVESTIGATION, FINDS THAT AN ARTICLE IS BEING IMPORTED INTO THE UNITED STATES IN SUCH QUANTITIES OR UNDER SUCH CIRCUMSTANCES AS TO THREATEN TO IMPAIR THE NATIONAL SECURITY, HE SHOULD PROMPTLY ADVISE THE PRESIDENT OF THAT FACT. UNLESS THE PRESIDENT DETERMINES TO THE CONTRARY, HE MUST "TAKE SUCH ACTION, AND FOR SUCH TIME, AS HE DEEMS NECESSARY TO ADJUST THE IMPORTS OF SUCH ARTICLE AND ITS DERIVATIVES SO THAT SUCH IMPORTS WILL NOT THREATEN TO IMPAIR THE NATIONAL SECURITY."

THIS IS INDEED A BROAD GRANT OF AUTHORITY THAT INCLUDED AUTHORITY TO IMPOSE QUOTAS, LICENSE FEES AND OTHER TYPES OF IMPORT RESTRICTIONS.

AS PROVIDED BY TREASURY REGULATIONS, THE ASSISTANT SECRETARY FOR ENFORCEMENT, OPERATIONS, AND TARIFF AFFAIRS, DAVID R. MACDONALD, CONDUCTED THE INVESTIGATION PROVIDED FOR IN SECTION 232. BASED ON HIS REPORT AND UPON MY OWN KNOWLEDGE OF THE SITUATION, I REPORTED TO THE PRESIDENT THAT CRUDE OIL AND PETROLEUM PRODUCTS ARE BEING IMPORTED INTO THE UNITED STATES IN SUCH QUANTITIES AND UNDER SUCH CIRCUMSTANCES AS TO THREATEN TO IMPAIR THE NATIONAL SECURITY. I WOULD LIKE TO SUBMIT MY REPORT AND THAT OF ASSISTANT SECRETARY MACDONALD FOR THE RECORD OF THIS HEARING.

IN MAKING THIS INVESTIGATION, INFORMATION AND ADVICE WERE SOUGHT FROM THE SECRETARY OF DEFENSE, THE SECRETARY OF COMMERCE, AND OTHER CABINET AND AGENCY HEADS IN COMPLIANCE WITH THE SPECIFIC PROVISIONS OF SECTION 232. THE INFORMATION AND ADVICE PROVIDED BY THESE GOVERNMENT OFFICIALS ARE ATTACHED TO ASSISTANT SECRETARY MACDONALD'S REPORT. I WOULD POINT OUT, IN PARTICULAR, THAT BOTH THE SECRETARY OF STATE AND THE DEPARTMENT OF DEFENSE FOUND THAT PETROLEUM IMPORTS CONSTITUTED A THREAT TO THE NATIONAL SECURITY.

SECTION 232 ALSO PROVIDES THAT THE SECRETARY OF THE TREASURY SHALL, IF IT IS APPROPRIATE AND AFTER REASONABLE NOTICE, HOLD PUBLIC HEARINGS OR OTHERWISE AFFORD INTERESTED PARTIES AN OPPORTUNITY TO PRESENT INFORMATION AND ADVICE RELEVANT TO A NATIONAL SECURITY INVESTIGATION.

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IN ADDITION, TREASURY DEPARTMENT REGULATIONS, IMPLEMENTING THE NATIONAL SECURITY PROVISION, ALLOWED AN EXCEPTION TO PROCEDURES FOR PUBLIC COMMENT WHEN IN MY JUDGMENT NATIONAL SECURITY INTERESTS REQUIRED THAT THESE PROCEDURES BE DISPENSED WITH.

WHEN, ON JANUARY 4, I DIRECTED ASSISTANT SECRETARY MACDONALD TO INITIATE AN INVESTIGATION TO DETERMINE THE EFFECTS ON THE NATIONAL SECURITY OF IMPORTS OF PETROLEUM AND PETROLEUM PRODUCTS, I ALSO DETERMINED THAT IT WOULD BE INAPPROPRIATE UNDER PRESENT CIRCUMSTANCES TO HOLD PUBLIC HEARINGS AND THAT NATIONAL SECURITY INTERESTS REQUIRED THAT THE PROCEDURES FOR PUBLIC COMMENT UNDER THE REGULATIONS NOT BE FOLLOWED. I DECIDED TO PROCEED IN THIS MANNER BECAUSE I BELIEVED THAT THE NATIONAL SECURITY REQUIRED AN IMMEDIATE DETERMINATION AND ACTION WITH REGARD TO PETROLEUM IMPORTS. IN ADDITION, I FELT IT APPROPRIATE TO DISPENSE WITH PUBLIC COMMENT BECAUSE A NUMBER OF INVESTIGATIONS AND HEARINGS ON THE EFFECT OF PETROLEUM IMPORTS HAD BEEN CARRIED ON DURING THE PAST YEAR, AND THE RESULTS OF THESE INVESTIGATIONS HAD BEEN MADE GENERALLY AVAILABLE.

THE ATTORNEY GENERAL, WHOSE OPINION I SUBMIT FOR THE RECORD, HAS CONCLUDED THAT TO PROCEED WITHOUT PUBLIC HEARING IS FULLY CONSISTENT WITH BOTH THE SPIRIT AND THE LETTER OF THE LAW AS RECENTLY AMENDED.

MR. CHAIRMAN, I BELIEVE THAT A CLEARER CASE COULD NOT BE MADE FOR THE USE IN THIS CASE OF THE STATUTORY AUTHORITY CONTAINED IN SECTION 232.

NATIONAL SECURITY

THE TEST WHICH MUST BE MET UNDER SECTION 232 OF THE TRADE EXPANSION ACT OF 1962 IN ORDER TO AUTHORIZE THE PRESIDENT TO ACT, IS THAT PETROLEUM "IS BEING IMPORTED INTO THE UNITED STATES IN SUCH QUANTITIES OR UNDER SUCH CIRCUMSTANCES AS TO THREATEN TO IMPAIR THE NATIONAL SECURITY." IN MAKING A DETERMINATION UNDER THE STATUTE, THE SECRETARY OF THE TREASURY TAKES INTO CONSIDERATION A NUMBER OF FACTORS, PROBABLY THE MOST IMPORTANT OF WHICH IS THAT THE ECONOMIC WELFARE OF THE COUNTRY IS CLOSELY TIED TO THE NATIONAL SECURITY OF THE COUNTRY.

ANYONE WHO LIVED THROUGH THE 1973-1974 OIL EMBARGO AND WATCHED THE SEVERE EFFECT IT HAD ON OUR ECONOMY, AND ANYONE WHO READS IN THE PAPERS THAT OVER TWO BILLION DOLLARS ARE LEAVING THIS COUNTRY EVERY MONTH TO PAY FOR PETROLEUM IMPORTS, COULD HARDLY CONCLUDE THAT OIL IMPORTS DO NOT POSE A THREAT TO OUR NATIONAL SECURITY.

THE FOLLOWING FACTS, IN MY VIEW, AMPLY JUSTIFY THE CONCLUSION THAT OIL IMPORTS THREATEN TO IMPAIR OUR NATIONAL SECURITY:

(1) PETROLEUM IS A UNIQUE COMMODITY, ENTERING INTO ALMOST EVERY FACET OF OUR ECONOMY, EITHER AS THE FUEL FOR TRANSPORTATION OF GOODS AND PEOPLE OR AS THE RAW MATERIAL FOR A MYRIAD OF PRODUCTS LIKE FERTILIZER AND PETROCHEMICALS

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(2) WE ARE NOW IMPORTING ABOUT 40% OF OUR TOTAL PETROLEUM CONSUMPTION;

(3) ONLY A SMALL PORTION OF THESE IMPORTS CAN BE DEEMED TO BE SECURE FROM INTERRUPTION IN THE EVENT OF A POLITICAL OR MILITARY CRISIS;

(4) MOST OF THE COUNTRIES WHICH EXPORT THE OIL THAT WE IMPORT ARE ORGANIZED INTO A CARTEL WHICH HAS, AT THE PRESENT TIME, SUCCESSFULLY MAXIMIZED OIL PRICES AT A LEVEL FOUR TIMES THAT WHICH PREVAILED PRIOR TO THE EMBARGO;

(5) THE OUTFLOW OF U. S. FUNDS AT AN ANNUAL RATE OF $25 BILLION TO THOSE OIL-RICH COUNTRIES GREATLY ENHANCES THEIR ECONOMIC AND POLITICAL POWER AND WEAKENS OUR OWN AND THAT OF OUR ALLIES;

(6) FINALLY, ALTHOUGH WE CANNOT AT THE PRESENT TIME, WITH SAFETY, STOP THE IMPORT OF ALL PETROLEUM TO THIS COUNTRY, THE CONSERVATION OF ONE MILLION BARRELS PER DAY IS BOTH NECESSARY AND DESIRABLE.

(7) OVER THE LONGER TERM, AN ECONOMIC MILIEU MUST BE CREATED WHICH WILL WEAN US AWAY FROM RELIANCE ON PETROLEUM IMPORTS.

MR. CHAIRMAN, IN THE FACE OF THESE FACTS, THE ONLY CONCLUSION I COULD POSSIBLY HAVE REACHED WAS THAT IMMEDIATE ACTION WAS NEEDED TO REDUCE OUR RELIANCE ON IMPORTED PETROLEUM AND THAT A FAILURE TO TAKE PROMPT ACTION WOULD INDEED SEVERELY THREATEN OUR NATIONAL SECURITY.

POLICY IMPLICATIONS

UNDERLYING ALL OF THE DIFFICULT ECONOMIC AND ENERGY DECISIONS REQUIRED IN PREPARING THE PRESIDENT'S ECONOMIC PROGRAM HAS BEEN THE NEED TO MOVE IN A DIFFERENT DIRECTION AWAY FROM POLICIES THAT HAVE CREATED OUR CURRENT DIFFICULTIES. TO ACHIEVE OUR ECONOMIC AND ENERGY GOALS WE MUST REDUCE IMPORTS OF EXPENSIVE AND INSECURE FOREIGN OIL SO THAT BY 1985 THIS NATION WILL NO LONGER BE VULNERABLE TO AN ENERGY EMBARGO. THE PRESIDENT HAS SPECIFIED A REDUCTION OF ONE MILLION BARRELS OF OIL IMPORTS A DAY BY THE END OF 1975 AND OF TWO MILLION BARRELS BEFORE THE END OF 1977 AS A FIRST STEP. AFTER CAREFULLY REVIEWING ALL OF THE OPTIONS, I BELIEVE THAT HE IS CORRECT IN CALLING FOR IMMEDIATE ACTION TO PROVE OUR WILLINGNESS AND CAPACITY TO ACT DECISIVELY TO REMOVE THE NATIONAL SECURITY THREAT DESCRIBED AND TO REGAIN CONTROL OF OUR ECONOMIC DESTINY.

WHILE ACHIEVEMENT OF THESE GOALS WILL REQUIRE THE LONG-TERM DEVELOPMENT OF VARIOUS ENERGY RESOURCES WE WILL HAVE TO RELY ON CONSERVATION IN THE NEAR-TERM. THE PRESIDENT HAS CHOSEN THE MARKET APPROACH RATHER THAN ARBITRARY CONTROLS BECAUSE THE RESULTS WILL BE BETTER AND THE INTERIM ECONOMIC DISTORTIONS WILL NOT BE AS GREAT. AS I INDICATED IN MY TESTIMONY YESTERDAY, I STRONGLY SUPPORT HIS DECISIONS. THE IMPOSITION OF THE IMPORT FEES ON CRUDE OIL AND PETROLEUM PRODUCTS IS A VITAL PART OF HIS ENTIRE ENERGY PROGRAM.

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CURRENTLY EXISTING FEES WILL BE INCREASED BY $3.00 PER BARREL ON IMPORTED CRUDE OIL AND BY $1.20 PER BARREL ON IMPORTED PETROLEUM PRODUCTS UNDER THE PRESIDENT'S ADMINISTRATIVE ACTION. IT IS ESTIMATED THAT THESE FEES WOULD INCREASE AVERAGE PETROLEUM PRICES BY ABOUT $.035 PER GALLON. IT IS ALSO ASSUMED THAT THESE FEES WOULD BE MODIFIED WHEN THE PRESIDENT'S LEGISLATIVE PACKAGE IS ACTED UPON.

I HAVE ATTEMPTED TO DETERMINE WHAT ECONOMIC RISKS, IF ANY, ARE CREATED BY THE DECISION TO MOVE AHEAD ON INCREASING THE IMPORT FEES ON CRUDE OIL AND PETROLEUM PRODUCTS. POSSIBLE RISKS INCLUDE: (1) THAT THE INCREASED TAXES MAY RESTRICT THE ENTIRE ECONOMY BY REDUCING THE AVAILABLE PURCHASING POWER OF INDIVIDUALS AND BUSINESSES; (2) THAT THE TAX COLLECTIONS AND OFFSETTING REDUCTIONS MAY NOT BE COORDINATED; (3) THAT GEOGRAPHICAL OR SPECIFIC INDUSTRY INEQUITIES MAY RESULT; AND (4) THAT THE INCREASED FEES MAY SIGNIFICANTLY INCREASE INFLATION PRESSURES.

THE PRESIDENT'S PROGRAM EFFECTIVELY OVERCOMES THE FIRST PROBLEM BY RETURNING $19 BILLION TO INDIVIDUALS, $6 BILLION TO BUSINESSES AND $2 BILLION TO STATE AND LOCAL GOVERNMENTS. THE TAX BRACKET ADJUSTMENTS FOR INDIVIDUALS ARE DESIGNED TO FAVOR LOW- AND MIDDLE-INCOME FAMILIES AND THOSE WHO DO NOT PAY ANY TAXES WILL RECEIVE $2 BILLION OF BENEFITS. NOR IS THE PHASING OF THE COLLECTION AND REDISTRIBUTION OF THE IMPORT FEES AN INSURMOUNTABLE PROBLEM. AS INDICATED IN TABLE 1, THE IMPORT FEES ARE EXPECTED TO TOTAL ONLY $200 MILLION DURING THE FIRST THREE MONTHS OF 1975.

THE FEES WOULD INCREASE TO \$400 MILLION UNDER THE ADMINISTRATIVE AUTHORITY AND \$700 MILLION UNDER THE NEW LEGISLATION REQUESTED BY THE PRESIDENT. FEES OF \$900 MILLION ARE PROJECTED FOR THE THIRD AND FOURTH QUARTERS OF 1975. THE REDISTRIBUTION OF THESE FEES THROUGH THE INCOME TAX SYSTEM CAN BEGIN IN JUNE 1975 IF THE NECESSARY LEGISLATION IS ENACTED QUICKLY. THEREFORE, THE POTENTIAL COLLECTION OF FEES PRIOR TO GETTING THE REDISTRIBUTION SYSTEM OPERATING IS NOT A MAJOR PROBLEM. IN FACT, THE NET EFFECT OF THE ENTIRE ENERGY TAX REDISTRIBUTION AND TEMPORARY TAX CUT PROPOSED BY THE PRESIDENT IS AS FOLLOWS (NEGATIVE FIGURES INDICATE AMOUNT OF STIMULUS TO ECONOMY):

	TIMING OF DIRECT BUDGET IMPACT (DOLLARS IN BILLIONS) 1975			
	I	II	III	IV
ENERGY TAXES	+0.2	+4.1	+12.6	+7.6
REDISTRIBUTION AND TEMPORARY TAX CUT	-0.0	-9.8	-20.2	-10.8
NET EFFECT	+0.2	-5.7	- 7.6	- 3.2

AS TO THE THIRD RISK INVOLVING GEOGRAPHICAL AND INDUSTRY SECTOR INEQUITIES, THE PRESIDENT AND HIS ENERGY ADVISERS HAVE REPEATEDLY EMPHASIZED THAT THEY WILL WORK TO EVEN OUT SUCH DISTORTIONS WHENEVER POSSIBLE. THE SPECIAL CONSIDERATION BEING GIVEN TO NEW ENGLAND STATES, AND CURRENT MEETINGS WITH VARIOUS INDUSTRY REPRESENTATIVES ARE GOOD EXAMPLES.

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THE POSSIBLE EFFECTS ON PRICES ARE MORE DIFFICULT TO DETERMINE. THE ENTIRE ENERGY PACKAGE IS EXPECTED TO CAUSE A ONE-TIME INCREASE IN THE PRICE INDEXES OF APPROXIMATELY 2 PERCENT. THIS ESTIMATE COMBINES THE DIRECT AND RIPPLE EFFECTS OF THE ENTIRE $30 BILLION ENERGY CONSERVATION TAXES AND FEES PACKAGE. THIS FIGURE IS, OF COURSE, AN ESTIMATE BUT WE HAVE CHECKED IT THOROUGHLY AND BELIEVE THAT IT IS REASONABLE. IN CALENDAR YEAR 1975 THE IMPORT FEES ARE EXPECTED TO TOTAL $3.2 BILLION ($0.6 AND $2.6 BILLION FIGURES FROM TABLE 1), OR 12.2 PERCENT OF THE TOTAL RECEIPTS. IN CALENDAR YEAR 1976 THE IMPORT FEES ARE PROJECTED TO BE $4.1 BILLION ON 13.6 PERCENT OF THE TOTAL. THEREFORE, THE POTENTIAL INFLATION IMPACT OF THE OIL IMPORT FEE PART OF THE ENERGY PACKAGE IS SMALL.

SUMMARY:

BASED ON MY ANALYSIS OF THE LEGAL AUTHORITY, NATIONAL SECURITY REQUIREMENTS AND ECONOMIC CONSEQUENCES OF THE OIL IMPORT FEE PROCLAMATION, I BELIEVE THAT WE SHOULD MOVE AHEAD WITH THIS IMPORTANT PART OF THE PRESIDENT'S OVERALL ENERGY PROGRAM.

-oOo-

Energy Taxes

($ billions)

	Calendar year liability	Calendar Year 1975 I	1975 II	1975 III	1975 IV	1976 I	1976 II	1976 III	1976 IV	1977 I	1977 II
		(Fiscal	1975)	(... Fiscal	Year 1976		....)	(... Fiscal	Year 1977		....)
Calendar year 1975											
Tariff	+0.6	+0.2	+0.4								
Oil:											
Excise	+4.8	--	+1.3	+1.6	+1.6	+0.3					
Tariff	+2.6	--	+0.7	+0.9	+0.9	+0.1					
Gas	+6.3	--	+1.7	+2.1	+2.1	+0.4					
Windfall profits tax	+12.0	--		+8.0	+3.0	+1.0					
Total	+26.3	+0.2	+4.1	+12.6	+7.6	+1.8					
Calendar year 1976											
Tariff	--	--	--	--	--	--	--	--	--	--	--
Oil:											
Excise	+7.2	--	--	--	--	+1.5	+1.8	+1.8	+1.8	+0.3	
Tariff	+4.1	--	--	--	--	+0.8	+1.1	+1.1	+1.0	+0.1	
Gas	+8.8	--	--	--	--	+1.6	+2.2	+2.2	+2.4	+0.4	
Windfall profits tax	+10.0	--	--	--	--	+1.9	+2.4	+2.4	+2.3	+1.0	
Total	+30.1	--	--	--	--	+5.8	+7.5	+7.5	+7.5	+1.8	
Total liability	+56.4										
Fiscal year effect		+0.2	+4.1	+12.6	+7.6	+7.6	+7.5	+7.5	+7.5	+1.8	
Fiscal year total			+4.3				+35.3				(+16.8)

Office of the Secretary of the Treasury
Office of Tax Analysis

January 17, 1975

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

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January 23, 1975

MEMORANDUM TO CORRESPONDENTS:

In the Report on Section 232 Investigation on Petroleum Imports issued by the Treasury Department today, the first sentence of the last paragraph on page eight should read as follows:

> Following the embargo, the Department of Commerce reduced its forecast of real output for the first quarter of 1974 by $10.4 billion and its forecast for the first quarter of 1975 by $15 billion.1/

# # #

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

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JAN 14 1975

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Report on Section 232 Investigation on Petroleum Imports

This report is submitted to you pursuant to Section 232 of the Trade Expansion Act of 1962, as amended, and results from an investigation that I initiated under that Section for the purpose of determining whether petroleum* is being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security.

At the present time, the demand for petroleum in the United States is 18.7 million barrels per day. Of this amount, imports provide 7.4 million barrels daily. The deficit in petroleum production compared with demand has grown since 1966, when the United States ceased to be self-sufficient.

Our increasing dependence upon foreign petroleum had, by 1973, created a potential problem to our economic welfare in the event that supplies from foreign sources were interrupted. Its adverse contribution to our balance of payments position had also significantly increased, and for the year 1973 the outflow in payments for the purchase of foreign petroleum was running at $8.3 billion annually, only partially offset by exports of petroleum products.

In September 1973, the worsening petroleum import situation was further seriously aggravated by an embargo on crude oil imposed by the Organization of Petroleum Exporting Countries, which effectively kept 2.4 million needed barrels of oil per day from U. S. shores. After the initiation of the embargo, the price of imported oil quadrupled from approximately $2.50 per barrel to approximately $10.00 per barrel and has since that time risen somewhat further. Simultaneously, the balance of payments

*The term "petroleum", as used in this report, means crude oil, principal crude oil derivatives and products, and related products derived from natural gas and coal tar.

problem deteriorated by reason of the increased oil bill paid by United States consuming interests. Today the outflow of payments for petroleum is running at a rate of $25 billion annually.

As a result of my investigation, I conclude that the petroleum consumption in the United States could be reduced by conserving approximately one million barrels per day without substantially adversely affecting the level of economic activity in the United States. Any sudden supply interruption in excess of this amount, however, and particularly a recurrence of the 2.4 million barrel per day reduction which occurred during the OPEC embargo, would have a prompt substantial impact upon our economic well-being, and, considering the close relation between this nation's economic welfare and our national security, would clearly threaten to impair our national security.

Furthermore, in the event of a world-wide political or military crisis, it is not improbable that a more complete interruption of the flow of imported petroleum would occur. In that event, the total U. S. production of about 11 million barrels per day might well be insufficient to supply adequately a war-time economy, even after mandatory conservation measures are imposed. As a result, the national security would not merely be threatened, but could be immediately, directly and adversely affected.

In addition, the price at which oil imports are now purchased causes a massive payments outflow to other countries. The inevitable result of such an outflow is to reduce the flexibility and viability of our foreign policy objectives. For this reason, therefore, a payments outflow poses a more intangible, but just as real, threat to the security of the United States as the threat of petroleum supply interruption. On both grounds, decisive action is essential.

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DEPARTMENT OF THE TREASURY

REPORT OF INVESTIGATION OF EFFECT OF PETROLEUM IMPORTS AND PETROLEUM PRODUCTS ON THE NATIONAL SECURITY PURSUANT TO SECTION 232 OF THE TRADE EXPANSION ACT, AS AMENDED

By

The Assistant Secretary of the Treasury
for Enforcement, Operations and Tariff Affairs,
David R. Macdonald

January 13, 1975

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FINDINGS

As a result of my investigation, I have found that crude oil, principal crude oil derivatives and products, and related products derived from natural gas and coal tar are being imported into the United States in such quantities as to threaten to impair the national security. I further find that the foregoing products are being imported into the United States under such circumstances as to threaten to impair the national security.

RECOMMENDATIONS

I therefore recommend that appropriate action be taken to reduce imports of crude oil, principal crude oil derivatives and products, and related products derived from natural gas and coal tar into the United States, to promote a lessened reliance upon such imports, to reduce the payments outflow and to create incentives for the use of alternative sources of energy to such imports. I understand that a Presidential Proclamation pursuant to Section 232 of the Trade Expansion Act of 1962 is being drafted by the Federal Energy Administration consistent with these recommendations.

(Signed) William E. Simon

William E. Simon

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REPORT OF INVESTIGATION UNDER SECTION 232 OF THE TRADE EXPANSION ACT, AS AMENDED, 19 U.S.C. 1862

I. INTRODUCTION AND SUMMARY

This investigation is being conducted at the request of and on behalf of the Secretary of the Treasury pursuant to his authority under Section 232 of the Trade Expansion Act (the "Act"), as amended, 19 U.S.C. 1862. (Annex A) The purpose of the investigation is to determine whether crude oil, crude oil derivatives and products, and related products derived from natural gas and coal tar are being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security. Under 31 CFR 9.3, the Assistant Secretary of the Treasury for Enforcement, Operations, and Tariff Affairs is responsible for making this investigation.

The Secretary of the Treasury has determined pursuant to Section 232 that it would be inappropriate to hold public hearings, or otherwise afford interested parties an opportunity to present information and advice relevant to this investigation. He has also determined pursuant to his authority under 31 CFR 9.8 that national security interests require that the procedures providing for public notice and opportunity for public comment set forth at 31 CFR Part 9 not be followed in this case. (Annex A)

In conducting the investigation, information and advice have been sought from the Secretary of Defense, the Secretary of Commerce, and other appropriate officers of the United States to determine the effects on the national security of imports of the articles which are the subject of the investigation. Information and advice have been received from the Departments of State, Defense, Interior, Commerce, Labor, the Council of Economic Advisers, and the Federal Energy Administration. (Annex B)

In summary, the conclusion of this report is that petroleum is being imported in such quantities and under such circumstances as to threaten to impair the national security of this country.

Petroleum is a unique commodity: it is essential to almost every sector of our economy, either as a raw material component or as the fuel for processing or transporting goods. It is thus essential to the maintenance of our gross national product and overall economic health. Only a small percentage of present U. S. petroleum imports could be deemed to be secure from interruption in the event of a major world crisis. The quantity of petroleum imports, moreover, is now such a high percentage of total U. S. consumption that an interruption larger than one million barrels per day at the present time would adversely affect our economy. If our imports not presently deemed to be secure from interruption were in fact kept from our shores, the effect on the U. S. economy would be staggering and would clearly reach beyond a matter of inconvenience, or loss of raw materials and fuel for industries not essential to our national security. The outflow in payments for petroleum also poses a clear threat not only to our wellbeing, but to the welfare of our allies. As the State Department has concluded, the massive transfer of wealth greatly enhances the economic and political power of oil rich states who do not necessarily share our foreign policy objectives, and correspondingly tends to erode the political power of the United States and its allies.

The purpose of this investigation under Section 232 of the Act is to determine the effects of our level of imported petroleum upon our national security and not to fashion a remedy. Nevertheless, it would appear that we must, over the longer term, wean ourselves away from a dependence upon imported oil, conserve our use of petroleum, promote the use of alternative sources of energy, and at least in part, stanch the outflow of payments resulting from our purchases of this commodity. As Secretary Kissinger states:

> "Clearly, decisive action is essential. We have signalled our intention to move toward energy self-sufficiency. We must now demonstrate with action the strength of our commitment. In the short-term, our only viable economic policy option is an effective program of energy conservation. A vigorous United States lead on conservation will encourage similar action by other consuming nations. Consumer cooperation on conservation now and then development of new supplies over time will deter producer aggressiveness by demonstrating that consumers are capable of acting together to defend their interests."

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II. STATUTORY CONSIDERATIONS

This investigation has proceeded in recognition of the close relationship of the economic welfare of the Nation to our national security. As required by Section 232, consideration has been given to domestic production of crude oil and the other products under investigation needed for projected defense requirements, the existing and anticipated availability of these raw materials and products which are essential to the national defense, the requirements of the growth of the domestic petroleum industry and supplies of crude oil and crude oil products, and the importation of goods in terms of their quantities, availabilities, character and use as those affect the domestic petroleum industry and the ability of the United States to meet its national security requirements.

In addition, other relevant factors required or permitted by Section 232 have been considered, including the amount of current domestic demand for petroleum and petroleum products which is being supplied from foreign sources, the degree of risk of interruption of the supply of such products from these countries, the impact on the economy and our national defense of an interruption of such supplies including the effects on labor, and the effect of the prices charged for foreign petroleum and petroleum products on our national security.

III. IMPORTS OF PETROLEUM AND PETROLEUM PRODUCTS

During the first eight months of 1974, the United States imported approximately 5.8 million barrels per day of petroleum and petroleum products. (Annex C) This figure amounted to 35.6 percent of total United States demand for such products during this period. The latest data available indicates that United States dependence on imported oil is growing. For the four weeks ending December 13, 1974, the United States imported about 7.4 million barrels per day of petroleum and petroleum products, which represented 39.5 percent of total United States demand for such products during the same period. (Annex C)

Imports into the United States may be divided into two major sources, the nations belonging to the Organization of Petroleum Exporting Countries (OPEC) and other nations. (Annex D) The OPEC nations have far more production capacity than the non-OPEC nations. Of the world's total production of approximately 55 million barrels per day, OPEC members produce 30 million barrels, Communist countries 11 million and the balance of 14 million barrels per day is produced by other countries including the U. S. 1/ Moreover, the OPEC countries have over 8 million barrels per day of production potential which is not being utilized while virtually no unused capacity exists in the rest of the world. 2/

Most recent indicators show that 3.5 million barrels per day of crude oil and petroleum products are being imported by the U. S. directly from the OPEC member states. (Annex D) In addition, as much as 850,000 barrels per day of finished products imported into the U. S. from third country sources may originate from OPEC nations. 3/ In total, 4.35 million barrels per day of the 1974 U. S. demand of approximately 17.0 million barrels per day came from OPEC sources. In percentage terms, U. S. imports from OPEC members account for over 25% of domestic demand.

The major Western Hemisphere suppliers of petroleum to the United States are Canada and Venezuela. The latter country provided the United States with approximately 1.1 million barrels per day from January through October 1974. For the same period, Canada exported to the U. S. over 1,000,000 barrels per day or slightly over 17% of our imported supplies.

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The Canadian Government has recently conducted a study of its own energy potential. It concluded that steps should be taken to reduce exports of oil with a view to conserving petroleum for future Canadian requirements. 4/ Accordingly, on November 22, 1974, the Canadian Government announced its intention to limit exports to the U. S. to 650,000 barrels per day by the end of 1975. Further reductions in exports will take place after annual reviews. As a result, it appears that the U. S. can no longer count on the availability of large volumes of oil from Canada but may have to increase our reliance on OPEC to make up for the reduction of Canadian imports.

In summary, 60 percent of current imports of crude oil comes directly from OPEC members and another 15 percent is refined by third countries using OPEC crude oil. At least 85% of the imported petroleum, however, whether from OPEC or non-OPEC countries, appears to be subject to the threat of interruption in the event of a crisis. Moreover, the outlook in the short run is for the percentage of imports derived from OPEC members to increase as a result of limitations on Canadian exports.

IV. EFFECT OF 1973-1974 EMBARGO ON THE DOMESTIC ECONOMY

The interruption of the supply of a major part of U. S. imports of petroleum during the Winter of 1973-74 had a serious adverse impact on the economy of the United States.

In his memorandum, Secretary Dent stated:

"The experience of the Arab oil embargo last year, even though it halted only about one-half of our oil imports, confirms the risk of disruption to the economy which is implicit in dependence on imports of oil to this degree. The oil embargo is believed to have produced a reduction in U. S. GNP by some $10 to 20 billion. All sectors of the economy were adversely affected, with the consumer durables sector and housing construction most heavily hit. Further, it is estimated that a substantial part of the inflationary rise of prices during 1974, particularly in the first half, is attributable to the direct and indirect effects of the rise in overall energy costs which followed the rapid escalation of costs for Arab oil. In view of this record of injury caused by loss of foreign oil supply and our continuing vulnerability to future injury of even greater impact, it is my opinion that imports at current and projected levels do constitute a threat to impair the national security."

The Federal Energy Administration noted in its Project Independence report that the embargo's impact was serious as a result of the nation's high level of dependence upon foreign petroleum imports. In the years 1960 through 1973 U. S. production did not keep pace with U. S. consumption of petroleum. The resulting gap represented the level of U. S. imports, which increased drastically:

U. S. Production and Consumption of Petroleum 1/
(1960-73)
Petroleum (Millions Barrels/Day)

Year	Production	Consumption	Gap (Imports)
1960	8.0	9.5	1.5
1965	8.8	10.8	2.0
1970	11.3	14.7	3.4
1972	11.2	16.4	5.2
1973	10.9	17.3	6.4

The impact of the embargo on imports can be shown by a comparison of import figures for both crude and refined oil imports for each of the months September 1973 through February 1974, and the percent change reflected in such figures from the same months of the preceding year:

Monthly Imports
Before and During the Oil Embargo 2/
(Millions Barrels/Day)

	Crude Oil	% Change from Previous Year	Total Refined Products	% Change from Previous Year
Sept 1973	3.47	+47	2.65	+26
Oct	3.86	+49	2.67	+ 9
Nov	3.45	+50	3.14	+30
Dec	3.99	+45	2.90	+ 1
Jan 1974	2.46	-13	2.85	- 4
Feb	2.10	-22	2.55	+17*

*The indicated positive balance in this month is reflected by the disproportionately large imports of motor gasoline, to accomodate critical shortages of this refined product.

Both the National Petroleum Council and the Federal Energy Administration have made detailed analyses of the impact of the 1973-74 embargo. A demand reduction of over 1 million barrels per day has been attributed to curtailment and conservation. These savings occurred in areas which caused minimum individual or collective hardship. However, many such savings were the result of one-time only reductions in usage patterns, such as lowering of thermostat levels. Once accomplished, by voluntary or other restraints upon energy usage, such savings cannot thereafter be duplicated.

The cost of the embargo to the economy, in terms of both increased energy costs and adverse impacts on the labor market, was severe. During the first quarter of 1974, the seasonally adjusted Gross National Product fell by 7% and the seasonally adjusted unemployment rate changed from 4.6% in October 1973 to 5.1% by March of 1974. Of course there were other factors at work in the economy during this period and it is difficult to isolate those declines attributable solely to the embargo. However, according to the FEA, increased energy prices during the embargo period were responsible for at least 30% of the increase in the Consumer Price Index with the long-term effects of the embargo and the subsequent price rises continuing after the embargo was lifted. As the FEA has pointed out, a comparison of the nation's economic performance for the two years preceding the embargo with the first quarter of 1974 demonstrates a clear and uninterrupted upward historical trend (albeit a reduced rate of increase beginning in the second quarter of 1973) followed by a sudden sharp decline during the relevant period:

Gross National Product Statistics 3/
(1972-1974)

		Real GNP a/	Present Changes in GNP from Preceding Quarter (Annual Rate)
1972 -	I	768.0	
	II	785.6	9.5
	III	796.7	5.7
	IV	812.3	8.0
1973 -	I	829.3	8.6
	II	834.3	2.4
	III	841.3	3.4
	IV	844.6	1.6
1974 -	I	831.0	-6.3

a/ Seasonally adjusted at annual rates in billions of 1958 dollars.

A similar effect has been identified by FEA with respect to real personal consumption expenditures and real fixed investments. These are set forth in detail in the Appendix to the Project Independence Report, and are not set forth in detail herein.

Following the embargo, the Department of Commerce reduced its forecast of real output for the first quarter of 1974 by \$10.4 billion, and its forecast for the first quarter of 1975 by \$15 billion. 4/ Again, studies showing detailed effects upon the labor market and contributions to changes for selected items within the CPI have been analyzed in detail by the Department of Commerce and the Federal Energy Administration, and set forth in the Project Independence Report.

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The adverse change of .5% in the seasonally adjusted national unemployment rate between October 1973 and March 1974 represents an increase of approximately 500,000 unemployed people. The Department of Labor has estimated that during the period of embargo 150,000 to 225,000 jobs were lost as a direct result of employers' inability to acquire petroleum supplies. An additional decline of approximately 310,000 jobs occurred as an indirect result of such shortages in industries whose products or processes were subject to reduced demand as a result thereof (most notably, the automobile industry). The Department of Labor estimates that 85% of the total jobs lost were those of semi-skilled workers, 5% clerical and 3% professional, technical and skilled.5/

The Federal Energy Administration has projected the loss in economic activity (GNP) which could be reasonably correlated to a shortfall in oil supplies. The pattern of this correlation indicates that at any given time, the economy can absorb a modest reduction in consumption before painful reductions in economic activity occur. After this reduction in nonessential uses of oil is made, further reductions of oil supplies will result in sharply increasing losses in the GNP. Based on such models, the FEA has determined the impacts of interruption of imports under several conditions. For example, a recently calculated situation shows that a 2.2 million bbl/day import reduction for six months' duration is estimated to cause a $22.4 billion reduction in GNP.6/

The Federal Energy Administration estimates that a reduction in consumption of approximately 1 million barrels per day can be managed without imposing prohibitive costs on the economy. While recognizing that a figure of 1 million barrels per day is not precise, it does approximate a reasonable estimate of the short-term reduction beyond which more severe economic readjustments would take place. Of the 17 million barrels per day current demand, it is estimated that 16 million is the proximate quantity required to prevent progressive deterioration of the economy at the present time.

It should also be noted that the impacts of any supply interruptions will be disproportionately felt in the various regions of the country. The major determinants of the impact within any given region is the amount of imports into that region, climatic conditions of the region, and the industries located there. The northwestern and northeastern parts of the country import large amounts of their petroleum requirements, the climatic conditions require them to use more energy for heating than other regions, and they have more energy using manufacturing industries in general than other parts of the country (this is especially true of the Northeast).

The direct effects of an embargo would be concentrated in PAD (Petroleum Administration for Defense) Districts 1 and 5. PAD District 1 includes the Eastern Seaboard of the U. S. where it is estimated that 83 percent of the 1975 crude petroleum demand will be imported. In PAD District 5, the West Coast of the U. S. including Alaska and Hawaii, imports are 43 percent of total uses. The East Coast problem is especially difficult because of the high fuel oil demands in the New England area and the fact that approximately 98 percent of the residual fuel oil for PAD District 1 is imported as a refined product or made from imported crude.7/

V. VULNERABILITY OF U. S. ECONOMY TO OIL AND DEVELOPMENT OF ALTERNATE ENERGY SOURCES

The vulnerability of the U. S. economy to petroleum supply interruptions is highlighted by (1) the fact that it is the backbone, not only of our defense energy needs, but also of our economic welfare, and (2) the difficulty of bringing in alternate energy sources immediately.

Although there may have been some recent minor changes, the 1973 figures show that petroleum accounted for 46 percent of domestic energy consumption, natural gas for 31 percent, coal for 18 percent, hydropower for 4 percent and nuclear for 1 percent. (Annex E)

The degree to which other energy forms can in the short run be physically substituted for oil is limited. Residual oil used in heating or utilities can be replaced with coal only after conversion of the plant's combustion facilities has taken place. Other energy sources are limited in supply or feasibility of use. Supplies of natural gas are declining and an interstate pipeline curtailment of 919 billion cu. ft. is expected in the 1974-75 heating season. 1/ The natural gas reserve/production ratio has declined from 21.1 in 1959 to 11.1 in 1973, 2/ indicating the production potential is seriously impaired. It does not appear that we can substitute natural gas for oil. On the contrary, the prospects are that either oil or coal may have to be substituted for natural gas. The nation's ability to increase its hydroelectric power generating capacity is severely limited. Other energy sources such as nuclear electrical generating power require long lead times for development and will not be available in materially increased quantities for a number of years. For example, nuclear power is not expected to reach a significant percentage (12%) of our total energy capacity until 1985. 3/ The availability of coal is subject to further mine development, expansion of transportation systems and convertibility of furnaces and boilers, all of which require significant development time. Moreover, both the production and combustion of coal is currently subject to environmental restrictions which further limit its accelerated development as an energy source.

The outlook for increasing production of crude oil from domestic sources is not favorable for the near term. Domestic production has declined from 9.6 million barrels per day in 1970 to 8.7 million barrels per day in December 1974. A further gradual decline is anticipated until oil from the North Slope of Alaska becomes available in late 1977, or until oil is produced from presently undeveloped areas as the Outer Continental Shelf. Nevertheless, the sharp increase in the price of oil should stimulate increased exploration which, in the intermediate or longer term, if combined with conservation efforts should ameliorate the present threat to our economy.

Also, long-term energy sources such as the development of geothermal and oil shale energy resources and the practical utilization of solar energy require major advances in the technology involved. This technology may take several years to develop, but should assist in the solution of the domestic shortage of energy sources if sufficient incentive is provided.

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VI. THREAT TO THE NATIONAL SECURITY OF FUTURE SUPPLY INTERRUPTIONS

Section IV has described the serious impact on the national economy and consequently on the national security of the winter 1973-1974 embargo. It is reasonable to expect similar or even worse effects of an interruption of supply in the future, particularly in light of increasing dependence on foreign sources of supply. U. S. production is declining 1/ and alternative sources of energy supply require a long lead time for development. 2/ Moreover, supplies from the most secure Western Hemisphere sources are likely to decline as illustrated by the Canadian action to reduce oil exports to the United States.

The Department of Defense has described the risks to our national security posed by the threat of a future supply interruption. The Department of Defense, in its memorandum to me of January 9, 1975, stated:

"The Department of Defense holds that this nation must have the capability to meet the essential energy requirements of its military forces and of its civil economy from secure sources not subject to military, economic or political interdiction. While it may be that complete national energy self-sufficiency is unnecessary, the degree of our sufficiency must be such that any potential supply denial will be sustainable for an extended period without degradation of military readiness or operations, and without significant impact on industrial output or the welfare of the populace. This is true because the national security is threatened when: (1) the national economy is depressed; (2) we are obliged to rely on non-secure sources for essential quantities of fuel; (3) costs for essential fuels are unduly high; and (4) we reach a point where secure available internal fuel resources are exhausted.

"As you know, the Mandatory Oil Import Program was established in 1959 for the express purpose of controlling the quantity of imported oil which at that time had been found to threaten to impair the national security. In the intervening years we have observed with growing concern the decline in domestic and western hemisphere petroleum productive capacity in relation to demand. The result has been a rapid expansion in our dependence on eastern hemisphere sources for the oil which is so essential to our military needs and the nation's economy. By 1973 that dependence had reached a level which risked substantial harm to the national economy in event of a peacetime supply denial. In event of general war, those risks would be substantially greater because of the sharply increased level of military petroleum consumption which would require support from domestic petroleum resources. The 1973 Arab oil embargo offered proof, if proof were needed, of the deterioration in our national energy situation.

"Energy conservation efforts and expanded use of alternate fuels halted the growth in crude oil and product imports during much of 1974. However, production of both oil and gas in the United States continues to decline, and indications are that import growth has resumed. Projections for 1975 indicate that imports may exceed seven million barrels a day, sharply higher than in 1974 and equal to near 19 percent of the probable total energy supply in 1975. To the extent that demand for petroleum imports causes increasing reliance on insecure sources of fuel, then such demand/reliance is a severe threat to our security."

Although oil exporters vary in their specific national goals and from time to time make unilateral decisions in regard to oil policies, oil exporters have the potential to bring about concerted actions which can explicitly deny the U. S. needed imports through such actions as last year's embargo. The loss in GNP growth and the significant unemployment created have on their face a significant impact in terms of the overall strength of the national economy. Continued reliance on foreign sources of supply leaves the U. S. economy vulnerable to further disruptive, abrupt curtailment or embargo of supplies, as well as to further increases in prices. Consequently, it is only prudent from a national security standpoint to plan for the possibility that another embargo, or other type of supply interruption, could occur.

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VII. THE EXCESSIVE RELIANCE ON IMPORTED OIL AS A SOURCE OF WEAKNESS IN A FLEXIBLE FOREIGN POLICY

The dependence of the United States on imported petroleum can also adversely affect the ability to achieve our foreign policy objectives.

A healthy and vital domestic economy coupled with modern and adequate defense forces are the basic elements of strength in protecting our national security, but equally important in today's interdependent world is the continued smooth functioning of the international economic system and, in particular, the economic strength and viability of our Allies. The economies of many of these countries are almost totally dependent on imported oil and are therefore much more vulnerable to the threat of a new oil embargo. This could adversely affect the extent to which we can rely on those Allies in the event of a serious political or military threat to this country.

The risk to our Allies and to ourselves comes not only from the possibility of disruptions of supply and the impact this could have on foreign policies but also from the effect on their domestic economies of the high cost of oil imports. Individual consumer states faced with balance of trade deficits and having difficulties in financing them, could attempt to equilibrate their trade balances through "beggar-thy-neighbor" actions.

For example, deliberate measures could be taken to interfere with markets so as to increase exports and/or decrease imports from non-oil exporting countries. Specific examples would include export subsidies, import tariffs, quotas, and perhaps other non-tariff barriers to trade. Such action would, of course, be infeasible as a concerted policy by all deficit nations and therefore irrational. Indeed, should all embark on such a course, a severe economic loss would result through income reductions to all. Exports would be reduced for all oil importing countries with loss in economic activity.

A slowdown in economic growth and consequent unemployment resulting from such a course could have economic and social effects that could have serious political implications for our own security.

These potential problems could arise from the continued high levels of oil imports in conjunction with the price of oil, which generate large current account surpluses for OPEC. Given the limited absorptive capacity of some of these countries the increased oil revenues to these countries will not be immediately translated into increased imports. A recent estimate of the OPEC 1974 current account imbalance is about $60 billion. In contrast, the 1973 OPEC current account balance was only $13 billion. Projections of these balances through time indicate continued reserve accumulations at least until 1980, as some OPEC members will only gradually adjust their import levels to higher export revenues. An estimate of these accumulations as of 1980 is on the order of $200 to 300 billion (in terms of 1974 purchasing power) for OPEC as a group. Such a massive transfer of wealth would enhance the economic and political power of oil rich states which do not necessarily share our foreign policy objectives.

It is our expectation that these funds will be held and invested in a responsible manner. There is every economic incentive for the owners of these resources to take this course. The United States' basic economic position strongly favors maximum freedom for capital movements and we believe there is no reason to change this policy.

However, in view of the possible problems noted above, it is imperative that we join with our Allies in a concerted program of conservation, reduced reliance on imported sources of oil and development of alternative energy supplies. In this way we promote market forces that will work against further rises in already monopolistic oil prices, and exert some downward pressure on world oil prices.

The Department of Defense confirms these conclusions:

> "The appropriate restriction of oil imports will also impact favorably on the balance of payments and, more importantly, will permit the United States to make a significant contribution to international efforts to reduce total world oil demand which, through its recent rapid growth, has contributed to harmful increases in world oil prices. Those increases have posed serious threats to the economic and military viability of NATO and other friendly nations, as well as to the United States. Reduced dependence on imported oil can also minimize the adverse impact on the United States, NATO and other friendly nations of boycotts such as that imposed by the Arab nations in 1973."

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The Federal Energy Administration has pointed out that reduction of reliance on imported oil and conservation are essential to U. S. participation in the International Energy Program. Administrator Zarb states:

> "Given the inability to create effective emergency supplies in the short run, it is important that the U. S. actively support and participate in international security agreements such as the International Energy Program (IEP), or a producer-consumer conference, with the objective of establishing future world oil prices acceptable to the U. S., the other importers, and the OPEC countries; and to decrease the likelihood of politically or economically motivated supply disruptions.
>
> "The IEP particularly is an important component of the U. S. energy supply security program. It would coordinate the responses of most major oil importing nations to international supply disruptions, provide guidelines for conservation and stockpile release programs, and avoid competition for available supplies, and thus limit the oil price increases likely to result from an oil shortage.
>
> "The IEP deters the imposition of oil export embargoes because it diminishes the ability of oil exporters to target oil shortfalls on particular oil importers, or greatly increases the cost of doing so. For example, under an IEP, a U. S. import shortfall of 3 MM B/D would require a much larger export cutoff, and increase the political and economic costs exporters would incur in imposing an embargo.
>
> "These measures do not exhaust the options available to the U. S. Government. They seem to us, however, to be among the most effective programs which the U. S. can implement at this time, given the character of the international energy market. As such, these options offer attractive prospects for minimizing the threat to our national security resulting from our need to continue to rely on imported oil."

VIII. FINDINGS AND RECOMMENDATIONS

As a result of my investigation, I recommend that the following determinations and recommendations be made by the Secretary of the Treasury and forwarded to the President:

FINDINGS

As a result of the investigation initiated by me, I have found that crude oil, principal crude oil derivatives and products, and related products derived from natural gas and coal tar are being imported into the United States in such quantities as to threaten to impair the national security. I further find that the foregoing products are being imported into the United States under such circumstances as to threaten to impair the national security.

RECOMMENDATIONS

I therefore recommend that appropriate action be taken to reduce imports of crude oil, principal crude oil derivatives and products, and related products derived from natural gas and coal tar into the United States, to promote a lessened reliance upon such products, to reduce the payments outflow and to create incentives for the use of alternative sources of energy to such imports. I understand that a Presidential Proclamation pursuant to Section 232 of the Trade Expansion Act of 1962 is being drafted by the Federal Energy Administration consistent with these recommendations.

David R. Macdonald
Assistant Secretary
(Enforcement, Operations,
and Tariff Affairs)

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FOOTNOTES

Section III.

1/ Treasury sources, Office of Energy Policy.

2/ Treasury sources, Office of Energy Policy.

3/ Treasury estimate, Office of Energy Policy.

4/ Statement of Donald S. MacDonald, Minister of Energy, Mines and Resources, on Canadian Oil Supply and Demand. Press Release November 22, 1974.

Section IV.

1/ Federal Energy Administration, Project Independence Report, Appendix at 284 (November 1974).

2/ Ibid. at 285.

3/ Ibid. at 289.

4/ Ibid. at 291.

5/ Ibid. at 296.

6/ Federal Energy Administration, Office of Economic Impact, The Potential Economic Costs of Future Disruptions of Crude Oil Imports, at 11 (December 23, 1974).

7/ Ibid. at 3.

Section V.

1/ Federal Power Commission, Staff Report, Requirements and Curtailments of Major Interstate Pipeline Companies Based on Form 16 Report (November 15, 1974).

2/ Report of a subcommittee of the House Committee on Banking and Currency on Oil Imports and Energy Security: An Analysis of the Current Situation and Future Prospects; 93rd Cong., 2d Sess. at 28 (September 1974).

3/ Federal Energy Administration, Project Independence Report, at 30 (November 1974).

Section VI.

1/ Federal Energy Administration, Project Independence Report at 5 (November 1974). See figures set forth in Annex F.

2/ See discussion of alternative energy sources in Section V. See also Federal Energy Administration, Project Independence Report at 6 (November 1974).

ANNEX A

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THE SECRETARY OF THE TREASURY
WASHINGTON 20220

JAN 4 1975

MEMORANDUM FOR ASSISTANT SECRETARY MACDONALD

SUBJECT: Request for Section 232 Investigation

Pursuant to my authority under Section 232 of the Trade Expansion Act, 76 Stat. 877 (19 U.S.C. 1862), I am requesting you to conduct an investigation under that section to determine the effects on the national security of imports of petroleum and petroleum products.

In my judgment, national security interests require that the procedures requiring public notice and opportunity for public comment or hearings, set forth in the Treasury regulations at 31 CFR Part 9, not be followed in this case. I further find that it would be inappropriate to hold public hearings, or otherwise afford interested parties an opportunity to present information and advice relevant to the investigation as provided by Section 232, as amended by the Trade Act of 1974. Therefore, I request that you proceed immediately with the investigation without doing so.

William E. Simon

William E. Simon

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ANNEX B

THE SECRETARY OF STATE

WASHINGTON

January 11, 1975

Dear Bill:

I am responding to your January 3 memorandum and that of David Macdonald requesting the view of the State Department as to the effect of petroleum imports on our national security.

The 1973-1974 oil embargo and production cutbacks demonstrated our vulnerability and that of other industrial nations to an interruption in foreign oil supplies. In addition to its direct economic cost in lost GNP and increased unemployment, the embargo stimulated massive and abrupt price increases which the producers have been able to maintain and increase. Without preventative action, OPEC's accumulation of financial assets will accelerate, reaching a total of about $400 billion in investable funds by the end of 1980. This massive transfer of wealth will greatly enhance the economic and political power of the oil rich states who do not share our foreign policy objectives. It will also cause a serious erosion of the political power of the United States and its allies relative to the Soviet Union and China.

Clearly, decisive action is essential. We have signalled our intention to move toward energy self-sufficiency. We must now demonstrate with action the strength of our commitment. In the short-term, our only viable economic policy option is an effective program of energy conservation. A vigorous United States lead on conservation will encourage similar

The Honorable
William E. Simon,
Secretary of the Treasury.

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action by other consuming nations. Consumer cooperation on conservation now and the development of new supplies over time will deter producer aggressiveness by demonstrating that consumers are capable of acting together to defend their interests.

From the national perspective, a major United States' conservation effort will:

-- reduce OPEC's financial claims on United States resources and the transfer of economic and political power to the producers;

-- reduce our vulnerability to supply disruptions;

-- limit the effect of future OPEC price rises on United States growth and inflation; and

-- exert some downward pressure on world oil prices.

We believe substantially higher import license fees will contribute to our conservation strategy. They should reduce our dependence on imported energy and demonstrate to other consumers and producers the seriousness of our commitment not to remain vulnerable to escalating oil prices and threats of supply interruptions.

Warm regards,

Henry A. Kissinger

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ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

9 JAN 1975

INSTALLATIONS AND LOGISTICS

MEMORANDUM FOR The Assistant Secretary of the Treasury
(Enforcement, Operations, and Tariff Affairs)

SUBJECT: Section 232 Investigation on Petroleum Imports

Reference is made to your memorandum of 4 January 1975 in which you advised that the Department of the Treasury is conducting an investigation under Section 232, 76 Stat. 877 (19 U.S.C. 1862), to determine the effects on the national security of imports of petroleum and petroleum products. Department of Defense views on the security implications of current and projected oil import levels were solicited.

The Department of Defense holds that this nation must have the capability to meet the essential energy requirements of its military forces and of its civil economy from secure sources not subject to military, economic or political interdiction. While it may be that complete national energy self-sufficiency is unnecessary, the degree of our sufficiency must be such that any potential supply denial will be sustainable for an extended period without degradation of military readiness or operations, and without significant impact on industrial output or the welfare of the populace. This is true because the national security is threatened when: (1) the national economy is depressed; (2) we are obliged to rely on non-secure sources for essential quantities of fuel; (3) costs for essential fuels are unduly high; and (4) we reach a point where secure available internal fuel resources are exhausted.

As you know, the Mandatory Oil Import Program was established in 1959 for the express purpose of controlling the quantity of imported oil which at that time had been found to threaten to impair the national security. In the intervening years we have observed with growing concern the decline in domestic and western hemisphere petroleum productive capacity in relation to demand. The result has been a rapid expansion in our dependence on eastern hemisphere sources for the oil which is so essential to our military needs and the nation's economy. By 1973 that dependence had reached a level which risked substantial harm to the national economy in event of a peacetime supply denial. In event of general war, those risks would be substantially greater because of the sharply increased level of military petroleum consumption which would require support from domestic petroleum resources. The 1973 Arab oil embargo offered proof, if proof were needed, of the deterioration in our national energy situation.

Energy conservation efforts and expanded use of alternate fuels halted the growth in crude oil and product imports during much of 1974. However, production of both oil and gas in the United States continues to decline, and indications are that import growth has resumed. Projections for 1975 indicate that imports may exceed seven million barrels a day, sharply higher than in 1974 and equal to near 19 percent of the probable total energy supply in 1975. To the extent that demand for petroleum imports causes increasing reliance on insecure sources of fuel, then such demand/reliance is a severe threat to our security. Given the gradual reduction in the quantity of petroleum available from relatively secure Western hemisphere sources, relative dependence on insecure sources in the eastern hemisphere will grow more rapidly than the overall growth in oil imports.

The exhaustion of our available internal fuel resources would pose an even greater threat to our security. Therefore, our petroleum policy should properly balance these opposing needs. That is to say, national security considerations would seem to require a proper balance of import restrictions with a decrease in demand. We recognize that the nation faces a period of several years during which dependence on insecure imported oil will exceed levels which we would consider acceptable from a national security viewpoint. Accordingly, we believe that every reasonable effort should be made to inhibit demand growth, and increase total internal energy supply while keeping the quantity of imports at the lowest level commensurate with the essential needs of national security and the civil economy.

The proper control of petroleum imports at minimum essential levels will provide assurance to those engaged in the development of conventional and non-conventional domestic energy resources that foreign oil, regardless of its availability and potential price competitiveness, will not be allowed to deny future markets to secure domestic energy supplies. The appropriate restriction of oil imports will also impact favorably on the balance of payments and, more importantly, will permit the United States to make a significant contribution to international efforts to reduce total world oil demand which, through its recent rapid growth, has contributed to harmful increases in world oil prices. Those increases have posed serious threats to the economic and military viability of NATO and other friendly nations, as well as to the United States. Reduced dependence on imported oil can

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also minimize the adverse impact on the United States, NATO and other friendly nations of boycotts such as that imposed by the Arab nations in 1973.

It is our conclusion that current and projected levels of demand and need for imported petroleum products and crude oil pose substantial risks to the national security of the United States. Additional growth in the need to import will result in further dependence on eastern hemisphere sources from which oil must move over long and vulnerable sea lanes. Moreover, it will depend predominantly on nations which have demonstrated the will and ability to employ their oil resources for political purposes. Further, the rapid growth in U.S. oil imports since 1970 has had, and will continue to have if it persists, a major role in creating and maintaining the conditions which led to the oil price rises of 1973 and 1974, and impaired the ability of our NATO allies to obtain their minimal oil needs in periods of supply disruption. Future growth will exacerbate those conditions. Increasing dependence on imported oil is inimical to the interests of the United States and should be subject to such controls as may be needed to insure that oil imports are properly balanced against our essential needs and reflect our development of additional energy resources.

Attached for your information are estimates of military petroleum requirements.

A. I. Mendolia

ARTHUR I. MENDOLIA
Assistant Secretary of Defense
(Installations & Logistics)

Attachment

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MILITARY PETROLEUM REQUIREMENTS

Estimated consumption, U.S. forces, FY 1975 - 558,000 barrels per day [1/]

Estimated consumption in general war - 1,800,000 barrels per day

In addition to purely military requirements there is a substantial additional need for direct and indirect use of petroleum by defense-related private industry. No data is available on the amount of petroleum involved, but broad estimates of total energy consumption by defense industry indicate that from 1.5 to 3.0 percent of total national energy consumption is currently required. That percentage would increase substantially in a protracted general war, probably largely due to conversion of industry to war production, without necessarily reflecting sharply increased energy requirements on a btu basis.

1/ Currently approximately 35% of consumption is obtained from foreign sources. No significant changes in consumption are projected through FY 1976.

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UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

In Reply Refer To:
EBM:AD/MMSDA-MS-DFF

JAN 8 - 1975

Honorable David R. Macdonald
Assistant Secretary
Enforcement, Operations and Tariff Affairs
Department of the Treasury
Washington, D.C. 20220

Dear Mr. Macdonald:

In response to your memorandum of January 4, 1975, relating to the request for investigation on petroleum imports under Section 232 of the Trade Expansion Act, we have enclosed some observations concerning the effects on the national security of imports of petroleum and petroleum products.

Sincerely yours,

Jack W Carlson

Assistant Secretary of the Interior

Enclosure

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THE EFFECTS ON NATIONAL SECURITY
ON IMPORTS OF PETROLEUM AND PETROLEUM PRODUCTS

Imports of crude oil in the first nine months of 1974 averaged 3.3 million barrels per day, and imports of petroleum products and unfinished oils in petroleum averaged 2.6 million barrels per day. Total imports as a percent of supply accounted for 36 percent and demand for petroleum products in the same period averaged nearly 16.5 million barrels per day. In the first nine months of 1974, residual fuel oil accounted for 60.2 percent of our product imports and 61.3 percent of domestic residual fuel oil demand; distillate fuel oil, 9.3 percent of imports, and 8.6 percent of demand. Imports of gasoline constituted 8.4 percent of products, but only 3.4 percent of domestic demand; jet fuel, 6.3 percent of imports and 16.7 percent of demand. Imports of liquefied gases and ethane comprised 4.6 percent of products and 9 percent of demand. Other products, which includes naphthas, kerosine, lubricants, waxes, asphalt, etc., aggregated 11.2 percent of product imports and 13.7 percent of domestic demand.

If crude oil imports were cut off, refining operations in the U.S. would have to be curtailed sharply. Based on average refinery yields (August 1974), domestic refineries obtained from the 3.3 million barrels a day of crude oil imported, nearly 1.6 million barrels a day of gasoline, nearly 700 thousand barrels a day of distillate fuel oil, and 274 thousand barrels a day of residual fuel oil.

Viewed narrowly, namely in terms of the probable needs of the Department of the Defense under present conditions or in a major nuclear war, it would appear that petroleum importations at current levels would not jeopardize national defense per se. However, a cut off of foreign supplies of crude petroleum and/or petroleum products would have a serious impact on the national economy, such as was demonstrated in the 1973-74 Arab Oil Embargo. Broadly viewed, a disruption of imports could have serious implications for the national security, as well, in that a strong and healthy economy is generally considered essential to our overall ability to maintain our free democratic institutions.

Still another consideration is the adverse impact petroleum products imports have on expansion of domestic refinery capacity. We cannot now meet our normal domestic needs from the full output of existing refinery capacity. An increase in imports of products would be harmful to national security because increasing dependence on such sources would not only make the United States more vulnerable to disruptions in supply flows, but also inhibit domestic refinery expansion.

Even without a further embargo, large imports pose an economic threat. The accompanying chart includes a 1974 estimated value of products and crude oil imports totaling $23.5 billion. Furthermore, in view of recent OPEC announcements, expenditures for petroleum imports could be even greater in 1975, and subsequent years. Therefore, this capital drain could have serious repercussions on the U.S. economy, and endanger the national security thereby. Moreover, large capital exports to nations not necessarily friendly to the objectives of the United States increases the potential for harm to ourselves or to our allies, and thus increases the threat to our security.

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

JAN 1 0 1975

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MEMORANDUM FOR THE SECRETARY OF THE TREASURY

SUBJECT: Section 232 Investigation of Petroleum Imports

This is in response to your memorandum of January 4, 1975, concerning the investigation of oil imports being initiated under Section 232 of the Trade Expansion Act of 1962, as amended. Specifically, your memorandum forwarded the request of Assistant Secretary of the Treasury Macdonald for (a) any information this Department has bearing on the effects on the national security of imports of petroleum and petroleum products, and (b) advice as to whether petroleum and petroleum products are being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security.

Based on prior analyses and a brief review during the past five days, it is my opinion that there is no question that imports of petroleum at current volumes and circumstances, including the current level of OPEC prices, threaten to impair the national security. Under these circumstances, we recognize the threat posed by oil imports to the ability of the United States to produce goods and services essential for ensuring our national security preparedness. We recognize the additional threat posed by the possibility of an extended embargo of oil imports. Section 232 of the Trade Expansion Act, the basis for the present investigation, in fact requires that recognition be given to "the close relation of the economic welfare of the Nation to our national security."

As you know, the quota system of the Mandatory Oil Import Program, based on national security findings, was in effect from 1959 to early 1973. Its objective was to restrict imports of petroleum and petroleum products to 12.2 percent of domestic production in Districts I-IV (the Eastern 80 percent of the continental U.S.) and to no more than the difference between demand and domestic supply in District V (the West Coast). At that time, foreign oil was priced well below domestic oil and restrictions on imports were judged necessary to preserve a viable domestic crude oil producing industry. However, in recent years domestic consumption has increased much faster than production, and it has not been feasible to maintain the old formula. In early 1973, import quotas were replaced by the license fee program, and imports of crude petroleum and products by the end of 1974 reached a figure which amounted to slightly more than 35 percent of consumption. I am enclosing a publication from the Bureau of the Census in which import quantities for 1973 and 11 months of 1974 are given.

The experience of the Arab oil embargo last year, even though it halted only about one-half of our oil imports, confirms the risk of disruption to the economy which is implicit in dependence on imports of oil to this degree. The oil embargo is believed to have produced a reduction in U.S. GNP by some $10 to $20 billion. All sectors of the economy were adversely affected, with the consumer durables sector and housing construction most heavily hit. Further, it is estimated that a substantial part of the inflationary rise of prices during 1974, particularly in the first half, is attributable to the direct and indirect effects of the rise in overall energy costs which followed the rapid escalation of costs for Arab oil. In view of this record of injury caused by loss of foreign oil supply and our continuing vulnerability to future injury of even greater impact, it is my opinion that imports at current and projected levels do constitute a threat to impair the national security.

In summary, I perceive the threat as being based on two factors: the possibility of an extended embargo and the inflationary impact of higher prices and volumes. We certainly want to ensure, should a positive finding be determined, that any recommended course of action would address these factors. If I can be of any further assistance in your deliberations, please let me know.

Frederick B. Dent

Secretary of Commerce

Enclosure

U.S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON

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JAN 9 1975

MEMORANDUM TO DAVID R. MACDONALD, ASSISTANT SECRETARY
(ENFORCEMENT, OPERATIONS, AND TARIFF AFFAIRS)

SUBJECT: Section 232 Investigation on Petroleum Imports

REFERENCES: Memorandum, January 4, 1975, above subject from Secretary of the Treasury, William E. Simon.

Memorandum, January 6, 1975, above subject, Assistant Secretary of the Treasury, David R. MacDonald.

The Department of Labor currently has no information available directly relating to whether petroleum or petroleum products are being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security.

Data usually provided by the Department of Labor for Section 232 investigations could not be collected and made available within the time required by Mr. Simon's memorandum of January 4. If you wish us to proceed with the fully detailed Department of Labor portion of a Section 232 investigation, we would be pleased to consult with you on the matter.

As noted in the memorandum of January 4, some work has been done in the Department concerning the current effects of imports of petroleum and petroleum products, albeit not in relationship directly to national security. This work includes:

1. The Secretary of Labor's Report on the Impact of Energy Shortages on Manpower Needs, dated March 1974. This report, required under Section 506 of the Comprehensive Employment and Training Act of 1973, deals with the impact of energy shortages on current and future employment. A copy is enclosed.

2. Labor Report, a part of the Project Independence Blueprint Task Force Report, dated November 1974. This report is available from the Federal Energy Administration.

3. "The Effects of Oil Resource Allocation", an unpublished study recently completed by Professor Yoram Barzel of the University of Washington under contract to the Department of Labor. The study is currently being reviewed within the Department. If it appears that this study contains material relevant to the effect of petroleum and petroleum products imports on national security we will advise you.

Joel Segall

JOEL SEGALL
Deputy Under Secretary
International Affairs

Enclosure

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THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

January 8, 1975

Dear Mr. Macdonald:

Petroleum and petroleum products are being imported into the United States in such quantities and under such circumstances as to threaten to impair the national security.

The quantity of imports of petroleum and petroleum products is so large that these imports are essential to the continued functioning of our economy at acceptable levels of employment and output. Unless appropriate action is taken, petroleum and petroleum product imports would continue at current or higher levels, leaving the economy open to serious damage if those imports were interrupted.

The circumstances under which petroleum and petroleum products are being imported into the United States lead to a threat to national security. Foreign governments may interrupt the flow of petroleum and petroleum product imports to the United States to achieve economic or political ends. Oil-exporting nations whose exports are now essential to the continued security of the United States have agreed to act jointly in matters of oil exports. Collective action by some petroleum exporters reduced U.S. petroleum imports during 1973-1974 with serious damage to the economy and security of the United States. A threat to our national security will exist until the United States can absorb the effects of an embargo without damage to its vital economic and military interests.

The United States can absorb the effects of an embargo without serious damage only if imports from those countries which act jointly on petroleum matters are not essential to the United States. These imports would not be essential if the economy of the United States required only as much petroleum and petroleum products, or their substitutes, as could be produced within our borders or imported from nations dwhich did not belong to the group which acted jointly on petroleum matters. Consequently, actions which cause the economy to adjust to the consumption of less energy in the form of petroleum and petroleum products, and/or which cause more petroleum products to be supplied by domestic sources, would lead to greater national security.

Alternatively, imports from those nations which act jointly on petroleum matters would not threaten the security of the United States if alternative sources of petroleum and petroleum product supply could easily and readily replace interrupted imports. At present such supplies do not exist, and consequently there is a threat to the national security of the United States.

In summary, petroleum and petroleum products are now being imported in quantities such that serious damage to national security would result from interruption of these imports. The circumstances under which petroleum and petroleum products are being imported makes those imports insecure. Consequently, petroleum and petroleum product imports threaten the national security.

Sincerely,

Alan Greenspan

Honorable David R. Macdonald
Assistant Secretary (Enforcement, Operations,
and Tariff Affairs
Department of the Treasury
Washington, D.C. 20220

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FEDERAL ENERGY ADMINISTRATION

WASHINGTON, D.C. 20461

OFFICE OF THE ADMINISTRATOR

JAN 1 1 1975

David R. Macdonald
Assistant Secretary
Enforcement, Operations, and
Tariff Affairs
U.S. Department of the Treasury
Washington, D. C. 20220

Dear Mr. Macdonald:

This is in response to your memorandum of January 4, 1975, concerning Treasury Department Section 232 Investigation on Petroleum Imports.

The Project Independence Report projected continued U.S. reliance on imported oil through 1980, given projected U.S. domestic supply/demand responses to world oil prices of $4-$11 per barrel.

It is our judgment that, whatever its source, imported oil is inherently less secure than domestic oil. Oil import shortfalls jeopardize the national security of the U.S. and other oil dependent nations because they impose severe economic costs. For that reason, the costs of offsetting that insecurity ought to be reflected explicitly in the domestic price of imported oil.

The future supply security of U.S. imports was a major focal point in the Project Independence Report. The International Assessment of that report assessed U.S. vulnerability to foreign political and economic coercion resulting from disruptions in the supply of imported crude. It should be noted, moreover, that a significant disruption in imports of certain finished products, such as residual fuel oil, could have major economic security implications for the country. For example, approximately 80 percent of residual fuel oil consumed in the U.S. is imported and most of it is consumed on the East Coast for the production of electricity and for industrial use. At the present time, very few of these users have the capability of converting to other fuels in the event of a temporary supply disruption lasting several months or longer.

The report evaluates a number of alternatives for offsetting the costs of oil import interruptions. The criteria for evaluating these options included their relative contribution to U.S. energy import supply security, their costs, and their impact on world oil prices. The most prominent options are: 1) Regulation of energy consumption during an oil import shortfall; 2) Alternative domestic emergency energy supplies; 3) International oil sharing. Each of these is discussed in greater detail below.

1. Regulation of energy consumption:

As was demonstrated during the 1973-74 embargo, government regulation of domestic fuel supplies can diminish the economic impact of an oil import embargo. FEA has estimated that an oil shortfall of approximately 1 million barrels/day can be managed by fuel allocation programs, without imposing prohibitive costs on the economy. In the short-term, 1975-76, this option is likely to remain effective. In the longer term, more efficient energy utilization will diminish the extent to which oil import shortfalls can be managed exclusively by relying on minimal cost fuel allocation programs.

2. Alternative emergency energy supplies:

In the short-term, 1975-76, emergency energy supply availability is limited to current inventories, domestic and international stocks, and any available production capacity of exporting states not participating in the embargo.

In the longer term, strategic petroleum reserves could be developed. For example, our assessment of current oil import security indicates the desirability of 1 billion barrels of crude oil, stored in U.S. salt-dome caverns as they become available. The amount could be adjusted as the threat assessment changes. Such a stockpile could offset a 3 MM barrel/day import cut for nearly one year. Given domestic conservation programs and alternate supply sources, however, the stockpile would most likely last longer than one year.

It will take several years to build strategic reserves to the desired level. In the meantime, the U.S. must consider ways to dampen the rate of increase in oil imports. We feel that, even at current world oil prices,

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the cost of using imported oil, i.e., the expected economic loss caused by an import shortfall, and/or the costs of emergency supply programs to diminish that loss, is currently not internalized by the U.S. economy. To this end, FEA feels a "security fee" on imported oil would be effective. This fee ($1 to $3 per barrel) could be used in part to finance the strategic reserve programs, and to encourage development of domestic energy resources.

3. International energy agreements:

Given the inability to create effective emergency supplies in the short run, it is important that the U.S. actively support and participate in international security agreements such as the International Energy Program (IEP), or a producer-consumer conference, with the objective of establishing future world oil prices acceptable to the U.S., the other importers, and the OPEC countries; and to decrease the likelihood of politically or economically motivated supply disruptions.

The IEP particularly is an important component of the U.S. energy supply security program. It would coordinate the responses of most major oil importing nations to international supply disruptions, provide guidelines for conservation and stockpile release programs, and avoid competition for available supplies, and thus limit the oil price increases likely to result from an oil shortage.

The IEP deters the imposition of oil export embargoes because it diminishes the ability of oil exporters to target oil shortfalls on particular oil importers, or greatly increases the cost of doing so. For example, under an IEP, a U.S. import shortfall of 3 MM B/D would require a much larger export cutoff, and increase the political and economic costs exporters would incur in imposing an embargo.

These measures do not exhaust the options available to the U.S. Government. They seem to us, however, to be among the most effective programs which the U.S. can implement at this time, given the character of the international energy market. As such, these options offer attractive prospects for minimizing the threat to our national security resulting from our need to continue to rely on imported oil.

We have enclosed a copy of the International Assessment chapter from the Project Independence Report together with a copy of the PIMS "U.S.-OPEC Petroleum Report," which provides OPEC export volume and pricing data for 1973 by individual member countries. The 1974 report has not yet been compiled.

We trust that this information will be helpful in the conduct of your investigation.

Sincerely,

Frank G. Zarb
Administrator

Attachments
a/s

cc: William E. Simon
Secretary of the Treasury

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ANNEX C

CRUDE PETROLEUM AND PETROLEUM PRODUCTS [1/]

1974 Data in 1,000 bbl/day

Month	Domestic Production	Crude Imports	Product Imports	Total Imports	Domestic Demand
January	8,907	2,382	2,973	5,455	17,270
February	9,156	2,248	2,973	5,271	17,371
March	8,950	2,462	2,753	5,215	16,045
April	8,952	3,267	2,703	5,970	15,919
May	8,903	3,748	2,454	6,202	15,624
June	8,777	3,957	2,218	6,175	16,459
July	8,893	4,167	2,143	6,310	16,156
August	8,918	3,905	2,286	6,190	16,332
Eight Month Average	8,932	3,267	2,563	5,830	16,397

Imports as percent of demand - 35.6%

LATEST DATA [2/]

Four Weeks (Ending Dec. 13)	8,661	4,047	3,360	7,407	18,742

Imports as percent of demand - 39.5%

1/ FEA, Monthly Energy Review - Oct. 1974

2/ FEA, Petroleum Situation Report - Dec. 13, 1974

ANNEX D

U.S. IMPORTS OF CRUDE OIL
AND PETROLEUM PRODUCTS BY SOURCE
JANUARY THRU OCTOBER 1974
IN 1000 BBLS/DAY

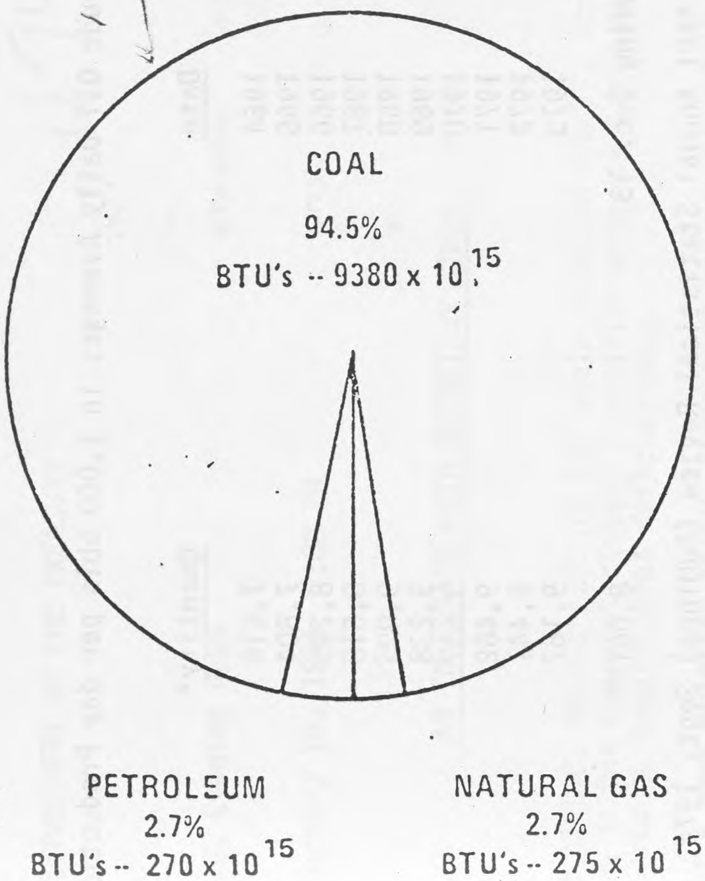
Country	Total
Algeria	220
Egypt	14
Kuwait	2
Qatar	16
Saudi Arabia	382
United Arab Emirates	82
Major Arab OPEC Countries	716
Ecuador	71
Indonesia	296
Iran	542
Nigeria	670
Venezuela	1,131
Gabon	33
Major OPEC Countries	3,459
Canada	1,015
Netherland Antilles	494
Angola	50
Italy	100
Netherlands	52
Mexico	10
Bahamas	213
Trinidad	272
Others	178
Grand Total	5,843

Source: Federal Energy Administration from Census Bureau FT-135 Report.

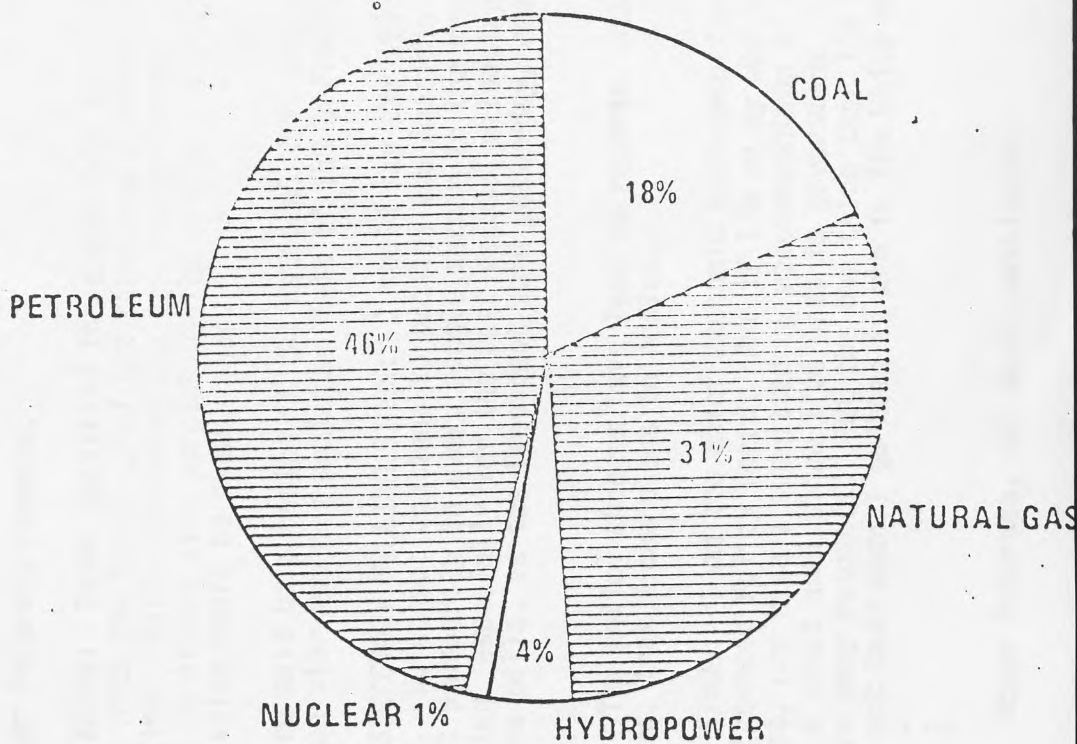
ANNEX E

THE CRUX OF U.S. PROBLEM

RECOVERABLE U.S. RESERVES



PRESENT U.S. CONSUMPTION



Source: FEA - Project Independence P-13

ANNEX F

U.S. Crude Oil Daily Averages in 1,000 bbls per day Production

Date	Quantity*
1964	7,614
1965	7,804
1966	8,295
1967	8,810
1968	9,095
1969	9,238
1970	9,637
1971	9,462
1972	9,441
1973	9,187
4 weeks ending Dec. 13	8,661**

Sources: *API Annual Statistical Review (BuMines) Sept. 1974, page 13.
**FEA Petroleum Situation Report Dec. 13, 1974.

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

4-76

JANUARY 23, 1975.

Memorandum to Correspondents:

Attached are questions and answers covering the economic and tax aspects of President Ford's program. To assist in organizing the material, it is printed in two sets, the first covering the economic program, with an outline, and the second covering tax matters, with an outline. Although collated together, the two sets are numbered separately. If you have questions or desire additional copies, please contact the Public Affairs Office, Department of the Treasury, Washington, D.C. 20220; telephone 202/964-2041.

WS-201

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OUTLINE OF ECONOMIC PROGRAM QUESTIONS AND ANSWERS

A. $16 Billion Anti-Recession Tax Reduction

(1) Change in economic policy?
Tax cuts rather than increasing Government expenditures.

(2) Program to have negative fiscal impact?

(3) Will people spend it?

B. Budget Deficits

(1) Defense of budget deficits for fiscal year 1975 and fiscal year 1976?

(2) Effect on financial markets and interest rates?

(3) Meaning of "too much Federal spending and lending and too much money and credit growth"?

C. Energy Conservation Tax Program

(1) Will it depress economic activity?

(2) Will it have same effect as oil cartel prices?

(3) Relationship between its revenues and tax reduction expenditures?

(4) Price increases from it?

employment

hy not 250,000 more public service jobs?

ns

s?

477A

A. $16 Billion Anti-Recession Tax Reduction

Q: Why does the economic program concentrate on tax cuts rather than increasing Government expenditures?

A: At the present time a tax cut is preferable for two reasons: First, a tax cut will have a much quicker and more immediate impact on the economy. Government spending programs, if they are to be effective, require much time and planning prior to implementation. The recession should be dealt with now. Secondly, and equally important, past history suggests that increased Government expenditures tend to become permanent and places increasing demands on the Federal budget. Even while dealing with recession it is important that we not lose sight of our long-term objectives of bringing Federal expenditures under control to bring the budget into balance when the economy recovers.

It is interesting that in recent weeks opinions among economists are virtually unanimous that under current conditions tax cuts are preferable to an expenditure stimulus.

Q: Some critics say that on balance the proposed economic program will have a negative fiscal impact. What do you say?

A: In broad fiscal terms, there is a temporary anti-recession tax cut of $16 billion. This is coupled with higher energy taxes which will raise $30 billion. But all of that $30 billion is cycled right back into the spending stream. So this leaves, as the main influence on total economic activity, the $16 billion tax cut, which is a sizable injection of fiscal stimulus.

Q: Can you be certain that people will spend the additional money they receive through tax reductions and provide the hoped for stimulus to the economy?

A: No one can be sure what consumers will do with more money in their pockets. It is our expectation that a substantial part will be spent and in areas where the economy is the weakest. This is based on observations with respect to past tax cuts. If consumers do save a large fraction of the tax reduction, additional funds will be available for investment in housing construction and other job creating activity.

B. Budget Deficits

Q: The Fact Sheet says that the President's program is not reckless. How can you defend the huge budget deficits for fiscal year 1975 and fiscal year 1976?

A: The President and other Administration officials have emphasized their strong opposition to the deficits expected. Such deficits do create financing problems for the Treasury and increase the national debt. Accordingly, the President has declared his intent to limit new spending programs and specific budget referrals and recisions have already been submitted to Congress. Declining revenues caused by the sluggish pace of economic activity are the major reason for the sharp increase in deficits. The temporary $16 billion tax cut also contributes to the anticipated deficit but the stimulus provided will result in increased economic activity which will create offsetting revenues. In short, the Administration is opposed to the large deficits but it also recognizes the importance of providing some stimulus through the tax cut and that the general loss of tax revenues will not be continued once economic growth is resumed.

Q: Won't the increased deficits resulting from the temporary tax cut place a strain on financial markets and raise interest rates because of the financing needs by the Treasury?

A: The large deficit will be a problem. However, there are a number of factors that will alleviate this problem. The private demand for credit is already declining significantly. We are building fewer houses and selling fewer automobiles and businessmen are liquidating inventories so that these financing needs will be greatly reduced this year. The Federal Reserve is following a policy that is moderately expansive and this will increase the total volume of funds available in the credit markets. Interest rates could rise because of the larger deficit, but the rise will be quite moderate. The important thing, however, is to reduce taxes quickly to provide support for the economy early in the year before increased demands again reappear from the private sector.

Q: What does the President mean by "too much Federal spending and lending and too much money and credit growth"?

A: Over a long period of time both fiscal and monetary policy have been far too stimulative. This caused the worst peacetime inflation in our history and brought on the current recession. How did it contribute to recession? By causing a major decline in housing and by cutting consumer income.

Fiscal policy has been consistently too easy. Federal expenditures have grown too rapidly and receipts have not kept up. When we close the books on fiscal 1975 we will have had Federal budget deficits in 14 of the last 15 years. This is not the whole story. In fiscal year 1974, the combined borrowings by all forms of government activity accounted for no less than 60 percent of the net funds raised in U.S. capital markets.

At various times the money supply has been expanded too rapidly resulting in a subsequent overheating of the economy and inflation. The pressures to finance Federal deficits have been an underlying reason for part of this excessive expansion. Therefore, both fiscal and monetary policies are important. important.

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C. Energy Conservation Tax Program

Q: Won't the President's energy proposals tend to depress economic activity at a time of recession and low business and public confidence?

A: Adjustment to higher energy costs will challenge the economy to become more efficient and to improve the allocation of resources. In the near-term, the restrictive effects of the additional conservation taxes and import fees will be offset by a tax rebate system which will return the approximately $30 billion of revenues collected back to individual, corporate and government taxpayers. Delay in moving forward with a comprehensive energy conservation program, or choice of a system of allocation or rationing to conserve energy, would only postpone the problem, reduce business confidence and delay a healthy and constructive recovery from the current recession.

The energy problem has contributed strongly to the current recession and decline in confidence; the energy issue must be faced squarely and acted upon promptly to restore and sustain improved confidence.

Q: The Administration has indicated that higher world oil prices set by the cartel have contributed strongly to the current inflation. Won't the energy program have the same effect?

A: The effect of the energy price increases on inflation is expected to be different now than when oil prices were raised at the time of the embargo in 1973. Demand was strong and shortages were widespread at that time, while demand is now weak and there are no shortages. In addition, the increased cost will be returned to the country through restructuring the tax system and not shipped abroad as a permanent levy on the American economy.

Q: The energy taxes will start taking money out of the economy in February and then in large chunks in April, but the tax package won't start putting that money back until mid-June. That's an awful lot of restraint and it will hit when the economy is still sliding downward. Isn't that sure to cause a depression?

A: The direct budget impact of the proposed program will be approximately neutral in the first quarter of this year. There is fiscal stimulus of an estimated $5.7 billion in the second quarter and $7.6 billion in the third quarter. The stimulus then tapers off fairly smoothly and reaches a position of near neutrality again by the end of calendar year 1976. This appears to be about what the situation is likely to require. Admittedly, the full impact is difficult to assess. It will depend upon indirect effects of the budget changes, the timing of the pass-through of higher energy costs to final users, the extent to which the changes are anticipated, and a variety of monetary and financial developments that arise out of these changes. But, as best we can judge, the stimulus will be felt when it will be needed most, and will phase out as the economy moves up under its own steam.

Q: Some estimates of the increase in prices caused by the energy program are higher than the Administration's. What sort of a price increase do you expect from the energy program that you proposed?

A: The calculation of the effects of the energy taxes on the price level took into account the direct effects which will be passed through to consumers. Our estimates indicate an initial direct effect upon the consumer price index of 1.3 percent. Allowing for effects upon the prices of goods and services that indirectly use energy would lift that increase to around 2 percent. In our view the further "ripple" effects that might result from secondary effects upon wages and profits in manufacturing, transportation, and the distribution system will be minor. Some wages are escalated directly, but this effect is relatively unimportant at present. More important by far, the entire objective of the energy program is to return to the economy the revenues raised by the energy taxes through offsetting income tax reductions. On average, people are paying the higher energy costs out of one pocket and getting the money back through lower income taxes. Consequently, it is not appropriate to assume that there will be a strong push given to wages and profits as to add significantly to the energy bill as it is passed through the economy.

D. Unemployment

Q: The unemployment rate has risen much more rapidly than you expected. Why don't you provide an additional 250,000 public-service jobs beyond the 500,000 already authorized for local governments?

A: The public service employment program will be useful to help cushion the effects of the recession. But there are limitations on how quickly and effectively that program can be expanded.

At the last report there were many public service job openings unfilled. We are making a strong effort right now to see that the state and local governments fill those openings as quickly as possible. Before long we will have a better idea of how much need there is under present conditions.

Our first line of defense, however, is the unemployment compensation program. It has been designed expressly to deal with cyclical unemployment. The program triggers in when needed and triggers out when the need has passed.

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E. Other Programs

Q: The President's state of the Union message did not contain any reference to the current crisis in the housing industry. Are there any plans to address this problem?

A: In January and May of last year, the Government National Mortgage Association (GNMA) made available $9.9 billion for mortgage purchases at favorable interest rates and in May the Federal Home Loan Mortgage Corporation made available an additional $3 billion. In October, another $3 billion was made available for the purchase of conventional mortgages at interest rates between 8 and 8½ percent. That money has now been committed. An extension of the October program has been announced for an additional $3 billion at a 7¾ percent interest rate through February.

Since the President's state of the Union message, HUD has lowered the FHA and VA interest rate from 9 percent to 8½ percent, implemented a $215 million direct-loan program to aid construction of rental housing for the elderly and handicapped, allocated $900 million for rent subsidies and provided financing and refinancing by loan guarantees of financially troubled existing apartment dwellings.

In the last 3 months, several hopeful signs have appeared on the housing front—such as lowered mortgage interest rates and increased savings flows to thrift institutions. These signs hold real promise for a significant upturn in the second half of this year.

Q: Why didn't the President recommend some limited measures in the wage-price area, such as requiring a 3-month waiting period for study of any major price increases by giant corporations?

A: Such steps are undesirable for two reasons. First, they have no real, beneficial effect in controlling inflation. If prices are held down artificially in a particular industry, the only result may be inadequate investment, future shortages, and even higher prices. Second, a more activist role for the Federal Government is taken by some to mean that comprehensive wage-price controls are on the way. This provides an incentive for firms to raise their prices in anticipation. This could be a self-fulfilling prophecy of the worst sort. The safest course of action is to continue the active monitoring program being conducted by the Council on Wage and Price Stability.

Q: Why was credit allocation not proposed to channel funds away from speculative and inflationary uses, such as conglomerate takeover and gambling in foreign currencies and gold, toward vital areas such as housing and small businesses?

A: Several reasons can be given:

(1) Substitution of the judgment of bureaucrats administering the program for the marketplace is undesirable; in practice it is extremely difficult to separate "vital" uses from those that are less essential.

(2) Credit allocation would mean some borrowers could not obtain funds at any price; serious hardship would be created for them while others may obtain larger loans than needed.

(3) Borrowed funds can be switched to different uses or substituted for internal funds; "end uses" of credit often cannot be controlled even under a rigid allocation system.

(4) The amount of credit that is used for corporate mergers, speculation and similar activity is an extremely small fraction of total credit in the economy; cutting off credit completely in those areas would release only miniscule funds for other uses.

(5) While mandatory allocation of credit is highly undesirable and inequitable, special programs that give preference have been used, for example in housing, and banks have also been encouraged to examine credit uses and needs carefully.

Q: Why didn't the President come up with a meaningful tax-reform program?

A: At best, tax reform is a lengthy and complicated process. Our present need is for prompt and effective stimulus action to deal with the economic situation. An effort to make a major breakthrough in the tax reform area could imperil the early application of remedies for the current problems of the economy. As the President said, tax reform is on the agenda for later this year.

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OUTLINE OF TAX QUESTIONS AND ANSWERS

I. Energy Tax Proposals

A. Excise Tax and Import Fees on Crude Oil and Gas—Explanation and Objectives

(1) How will it work?

(2) Permanent?

(3) Authority for fees?

(4) Will it reduce consumption?

(5) Why recycling approach?

(6) Why not spend on energy research?

B. Decontrol of Prices

(1) How will it work?

(2) How much absorbed by Windfall Profits Tax?

C. Economic Impact on Consumers and Distribution of Burden

(1) Redistribution from individuals to corporations?

(2) Individuals pay 100 percent of $30 billion taxes?

(3) Rebate too late?

(4) Redistribution from poor to rich?

(5) Effect of decontrol and taxes on fuel costs?

(6) How price increase reduces imports?

(7) Effect of Windfall Profits Tax on consumer prices?

(8) Tax relief adequate?

(9) Economic impact excessive for northeast?

(10) Import fees disadvantage high import areas?

(11) Why two installment rebate?

D. Windfall Profits Tax—Explanation

(1) How does it work?

(2) Is excise tax included in windfall profit?

(3) Won't producers hold back?

(4) How will it affect producers?

(5) Why no exemption for independents?

(6) Differences from 1973 proposal?

(7) Why not on natural gas?

E. Alternative Proposals

(1) Rationing

(2) Eliminate percentage depletion

(3) Gasoline tax

(4) BTU tax

(5) Low mileage or weight tax

F. Residential Conservation Tax Credit

(1) How does it work?

(2) What qualifies?

II. Investment Tax Credit Proposals

(1) What help given to utilities?

(2) How will investment credit affect rate-making by utilities?

(3) How will 1-year increase in investment credit work?

(4) How does increase in 50 percent limit on credit for utilities work?

(5) Effect of May 1 enactment of 12 percent not quick enough?

(6) Why is 12 percent credit extended an additional 2 years only for certain utilities?

(7) Will we require utility commissions to pass through tax savings to consumers?

(8) Will temporary increase cause subsequent problems?

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III. Tax Reductions and Payments to Nontaxpayers

(1) Aren't cash payments a kind of negative income tax?

(2) What will married couples receive?

(3) Will penalty on singles be increased?

(4) Doesn't rebate benefit high-income families more?

(5) How many will not benefit from rebate?

(6) How many will be made nontaxable by increase in low-income allowance?

(7) How many will switch to low-income allowance?

(8) Wouldn't more relief for corporations be better?

(9) Why cut taxes for upper-bracket taxpayers?

(10) Why two steps for tax relief?

(11) Are energy costs offset by proposed tax deductions?

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I. Energy Tax Proposals

A. Excise Tax and Import Fees on Crude Oil and Gas—Explanation and Objectives

Q: How will the import fee and excise tax on crude oil and natural gas work?

A: A license fee on imports of crude oil will be increased by $1 per barrel on February 1, $2 on March 1 and $3 on April 1. We are asking the Congress to impose an excise tax of $2 per barrel on the producer of domestic crude oil at which time the fee on imported crude oil will be set at $2 per barrel over present levels.

In order to prevent a shift to natural gas which, relative to coal and other resources, is already in short supply, an equivalent tax will be imposed on natural gas and liquefied petroleum gases. That is 37 cents per m.c.f. of dry gas and $1.43 per barrel for liquefied petroleum gases.

Q: Will the $2 per barrel tax on oil and the 37 cents per m.c.f. tax on gas be permitted to expire or are they permanent?

A: We are not proposing any expiration date for the taxes, because we cannot now predict when they will no longer be required to help us conserve energy and reduce energy dependence. However, if these pressing national needs can be met otherwise some years in the future, we are sure Congress will reconsider the desirability of these taxes.

Q: How and under what authority will the increase in import fees become effective?

A: The President will issue a Proclamation setting out his determination that national security is involved and specifying the fees to be made applicable, pursuant to section 232 of the Trade Expansion Act of 1962 (19 U.S.C. § 1862) Proclamation 4210, dated April 19, 1973 (38 F.R. 9645), which sets out the present import fees, will be withdrawn or modified.

Q: What will the effect on oil consumption in the United States be from the energy tax program?

A: By the end of 1975, we will have reduced our oil consumption by at least 1 million barrels per day. All of this reduction will come in the form of reduced imports, which should improve our balance of payments position considerably. By 1977, our consumption will have fallen by 2 million barrels per day. The reason the reduction grows is that consumers will have had time by 1977 to further change their consumption patterns—smaller cars, fewer trips to the store, home insulation, etc. Businesses will change even more rapidly by switching from oil to coal, installing energy saving equipment, etc.

Q: Why impose energy taxes with one hand and cut income taxes with the other in order to return the money to the economy?

A: The energy taxes are designed to raise the relative prices of oil and gas and to ensure that these increases do not result in gains by producers of oil and gas. The income tax restructuring is designed to mitigate the burdens everyone will share in adapting to the higher costs of energy.

The burden of energy taxes will fall most heavily on those who are the heaviest consumers of oil and gas. The income tax restructuring will favor most those whose incomes are lowest and have been most heavily penalized by the inflation. Higher energy prices will also encourage the massive investment program required to adapt the economy for the future era of costly energy.

Q: Why not use the revenue from the tax on oil and gas and windfall profits tax for energy research and development instead of returning it to consumers?

A: There is already substantial government spending to study and develop new energy resources. There is a limit to how much will be achieved by additional dollars spent.

We believe the revenue will be better spent if returned to the economy. The kind of consumer spending which we expect will result will create more jobs than government spending on research and development.

B. Decontrol of Prices

Q: How does decontrol of oil and gas prices help anything?

A: It helps in two ways. On the demand side, it signals users what the true cost to the U.S. economy is to obtain an additional barrel of oil or a cubic foot of gas so that these resources will not be used for purposes that are worth less and thus be wasted.

On the supply side the higher decontrolled prices will signal producers how much they can afford to spend to explore for and produce more oil, and they will invest accordingly.

In the case of oil, decontrol will help arrest the alarmingly high rate of decline in production from existing fields. Producers will be able to get the same price from investing in secondary and tertiary recovery processes that produce "old" oil as they would from investing in the search for "new" oil elsewhere. In the case of gas, we expect that more of the volume coming on stream will flow into interstate pipelines rather than remaining within the producing states in which the gas is located.

Finally, price controls are unsound in the long-run and lead to more and more severe problems than they possibly could solve. Decontrol will make unnecessary all the administrative regulations that have been promulgated in order to imperfectly distribute the controlled low-price oil and interstate gas among the several classes of users. All Americans should have the same access to oil and gas, and they will if prices are decontrolled.

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Q: By how much are expenditures for domestically produced oil increased by decontrol and how much of this is absorbed by the Windfall Profits Tax?

A: Decontrol of domestic oil prices will result in an increase of under $11 billion in expenditures for this portion of our total consumption. The Windfall Profits Tax will skim more than $14 billion in 1975 from the gross incomes of oil producers, or $3 billion more than the increased payments. Since the capture of these prices from oil producers will reduce their taxable incomes, and thus their income taxes, the Government's net revenues will be increased by $12 billion.

C. Economic Impact on Consumers and Distribution of Burden

Q: Doesn't this energy tax and cycling plan discriminate against individuals in favor of corporations?

A: Individuals as consumers will bear only a portion of the increased oil prices. Business will also have additional costs and lesser incomes and will incur substantial capital costs in adjusting to the changes. Tax relief for business recognizes those facts and lessens the necessity for business to recoup its losses in the form of increased prices.

Q: Under the Administration's proposals, individuals will pay 100 percent of the $30 billion in tax increases but will receive only about $20 billion of the permanent tax decreases—isn't this terribly unfair?

A: It is not true that individuals pay the $30 billion in energy taxes.

First: $12 billion of that amount is the net revenue from the Windfall Profits Tax—this tax is collected largely from corporations and cannot be passed on to consumers in still higher prices—oil prices received by producers are limited to the $11/bbl world price whatever their costs may be. Now it is true that the increased prices that gave rise to the $12 billion in tax revenues came in part from individuals, but a large part of it came from corporations which will be unable to pass those increased costs on because of the current business situation.

Second: The excise taxes and import fees must first be paid by the corporations which purchase the oil and gas. Obviously, they would like not to absorb those increased costs, but passing them on is difficult. For example, the auto manufacturers incurred increased costs which they attempted to pass on in higher prices, but the public decided it didn't want new cars at those prices, contributing to the steep decline in auto sales. Prices cannot always be increased to cover costs—ask any businessman.

Third: $5 billion in excise taxes will be paid by local, State, and Federal Governments. These governments are supported largely by income taxes and income taxes are generally estimated to be borne roughly 50 percent by owners of capital and 50 percent by consumers.

The proposed program provides tax relief for both individuals and business. Individual income taxes account for about three times as much revenue as corporate income taxes, and relief would be allotted in that same 3-to-1 ratio.

Q: Energy taxes will effect price increases to consumers long before they receive any tax rebate. Won't that aggravate recession?

A: If the first rebate is made in May, we think it will be in time to pay for any significant price increases. Under FEA rules, increased crude oil costs and taxes will not result in price increases for refined products for about 30 days. The $1 per barrel increase in import fees on February 1 is not significant. The $2 per barrel increase, which takes effect on March 1, will cause consumer price increases in April or later. Heating bills will be lower for spring months. Credit card purchases will delay even further the effect of gasoline price increases for many consumers. Thus, a May rebate would appear to be soon enough even if we expected it all to be spent on energy consumption, which we certainly do not expect.

Q: You propose that the combination of energy taxes and a tax rebate and reduction will increase the cost of energy to reduce demand and return that increase to the economy. Don't you think it is unfair to impose the burden of higher costs and conservation on everyone, but return the revenue only to those who pay taxes, to the exclusion of the very poor whose inability to live with higher costs makes their burden worse to bear? Isn't this a redistribution of wealth from the poor to rich (or at least relatively rich)?

A: The energy package will not increase the energy burden of nontaxpayers by more than the $80 per adult cash payment provided for them. In any event, it is impossible to shape an effective energy policy in a way that does not raise energy prices for poor people as well as for other peope. The problem lies not with the energy policy, but with the fact that the people are poor. We must have other government programs to work on the problem of relieving poverty.

Q: What will the effect of price decontrol and the energy tax program be on the prices of gasoline, fuel oil, and other petroleum products?

A: There would be roughly a $4 per barrel increase in the price of oil. Since there are 42 gallons in a barrel, that would mean about a 10 cents per gallon increase in all products, although it may be somewhat more on some and somewhat less on others.

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Q: Increased oil prices haven't reduced imports up to now, why do you think raising prices $4 a barrel will reduce imports in 1975?

A: The increase in oil prices *has* reduced consumption of petroleum products in the United States already:

> During the decade ending in 1973, the annual rate of growth of petroleum consumption exceeded 5 percent. Thus, had things continued as they were, we would have expected the level of 1974 consumption to have been more than 5 percent greater than in 1973. Since domestic production is about stable, this additional consumption would have been supplied by imports.
>
> But, comparing the 6-month period ending in September, 1974, with the same period in 1973 (prior to the Arab oil cutback), total U.S. consumption was *down* 3 percent. Because the expected 5 percent increase did not occur, the total reduction in consumption was about 8 percent (5%+3%).
>
> The economic slow-down had scarcely begun to be noticed during the 6 months ending in September of 1974, thus the increase in price of oil largely accounts for the decline in consumption. And this occurred during the space of only a few months of rapid price escalation.

Moreover, due to the peculiarities of our 2-price system and the imperfect allocation scheme which has been in effect, not all sections of the country have had to experience the full effect of the price increase. Had everyone been confronted by the world price of oil, the demand response would doubtlessly have been larger.

We are experiencing small increases in imports now primarily to replace declines in domestic production—from 9.2 million barrels per day in 1973 to 8.8 million barrels per day in 1974.

Q: How does the Windfall Profits Tax affect consumer prices?

A: While the $2/ barrel import fee is intended to and will increase prices to consumers, the excise tax and Windfall Profits Tax are designed only to remove the windfall profits of oil producers and will not increase prices to consumers. They take away that part of the market price received by producers which is not related to increasing or maintaining domestic oil supplies.

Q. Do you think the tax relief you have recommended for individuals is enough particularly in light of increased fuel costs?

A: Yes.

Increased energy costs are the price we must pay to solve the energy problem. There is no system of mirrors that will make it painless to solve that problem.

The tax cuts are designed to achieve another objective—to make the tax system fairer and to correct for biases caused by inflation. There is no intention—and no way—to use tax cuts to compensate for every inconvenience or hardship caused by the energy program.

However, it is a fact that the tax cuts will, in a very general way, offset the additional costs individuals may pay. The permanent tax cuts will return to the economy the revenues raised by the energy taxes. And the temporary tax relief adds another $16 billion, to boot. The total tax relief is heavily skewed to benefit low and middle income taxpayers.

Q: The imposition of an import fee and excise tax on crude oil may cut into individual's pocketbooks in some sections of the country more than others, e.g., the northeast and northern border states. Do you have any plans to relieve this added price burden?

A: Some households use relatively more products that reflect the price of oil than do other households and will be affected more by the proposals. It is far from clear, however, that there will be major differences between geographical regions. It is true that winters are more severe in northern states than in the south and heating will cost more for those that heat with oil or with oil generated electricity. On the other hand, air conditioner costs are much higher in the south. And in the west and southwest, it is probably true that people tend to drive much longer distances. So there are many offsetting factors.

In any event, the tax package has been designed to be very generous for lower and middle income classes and should be more than ample to compensate for any differences.

Q: Will the import fees disadvantage particular areas of the country that rely heavily on imported oil?

A: Not when the program is fully in effect. At the present time, areas that rely heavily on imported oil are paying higher prices than those areas that rely on domestic oil. When the entire proposal is in effect, the price of oil should be the same everywhere: there will be a uniform $2 excise-import fee on all oil, and decontrol will remove the price advantage presently enjoyed by those areas relying primarily on domestic oil.

During February and March, it is true that there will be additional costs for imported oil but not for domestic oil. An equalization system will be used to prevent this from impacting on the regions which rely heavily on imported products.

Q: Why is the one-shot tax rebate to be paid in two checks?

A: Part of our recession problem is lack of consumer confidence. We felt that a check of significant size would heighten awareness of the benefit and a second check would reinforce that awareness.

Paying the amount in two checks spreads out somewhat the difficult job which the Treasury will have in financing these enormous deficits. The Treasury's problem is not whether it can raise the money, for it always goes to the head of the line. The problem is to raise the money without creating a major credit drouth for private borrowers and without increasing the money supply so drastically as to set off another inflationary spiral.

D. Windfall Profits Tax—Explanation

Q: How will the Windfall Profits Tax work?

A: The Windfall Profits Tax on crude oil imposes a graduated excise tax (15 percent to 90 percent) on the excess of the sales price per barrel of oil over an amount called the adjusted base price which is set at a level intended to permit a normal, but not a windfall profit. For each month the tax is effective, the adjusted base price increases, thereby reducing the amount subject to tax. This is done to anticipate rising exploration and operating costs and the effects of inflation over a period for which the tax is effective. The adjusted base price and graduated rates operate to leave a reasonable profit for the producer and take away only the windfall profit. To be certain that high cost oil producers never have to pay more in taxes than they have in profits, the tax will never be imposed on more than 75 percent of the producer's taxable income that would exist if there were no Windfall Profits Tax.

Q: If the price of uncontrolled oil now is $11 and a $2/bbl import fee and excise tax are imposed raising the price per barrel to $13 for both imported and domestic oil, will the Windfall Profits Tax be computed on the $11 or the $13?

A: The Windfall Profits Tax falls on the producer. The $2/bbl excise tax is a wedge between the price the producer is willing to sell for and the price the purchaser pays. Therefore, the $2/bbl excise is not deemed received by the producer and will not be taken into account in computing his Windfall Profits Tax. It will be computed on the $11 per barrel, not the $13.

Q: If the Windfall Profits Tax phases out over time, will it discourage current production or encourage the holdback of production until the tax declines?

A: No. The rate at which the tax declines is slow enough that producers would be better off to produce and sell the oil, pay the tax and reinvest the proceeds than to leave the oil in the ground. This is especially true if, as appears likely, future oil prices will decline.

Q: How does the Windfall Profit Tax affect oil producers?

A: When the producer sells his oil, the purchaser will withhold the Windfall Profits Tax and remit it to the Internal Revenue Service, much in the same way that state severance taxes are now handled. Thus, the producer will receive for his oil only the net price after tax, which in the first month will be about $6.28 (assuming an $11 market price). He then pays his operating expenses, State taxes and income taxes from the $6.28, retaining the balance.

Q: Why do you oppose plowback credits and exemptions from the Windfall Profits Tax for small or independent (as contrasted with major) oil producers?

A: In the case of plowback, there is no evidence that the amounts oil producers will retain after the tax will be insufficient to attain the goal of energy independence by 1985. To put it another way, we are unconvinced that permitting the credit will produce more energy than not doing so. Further, a plowback provision means that persons already engaged in oil production can make investments with tax dollars supplied by the Government, while new investors must use their own money. We do not believe that kind of discrimination, or anti-competitive effect can be justified.

In the case of different classes of producers, we simply believe that a windfall is a windfall to large and small producers, high and low cost producers and producers located everywhere. The public is paying a higher price for all oil, and all oil prices should effectively be reduced through the windfall tax mechanism. The issue of plowbacks and special exemptions ultimately comes down to whether windfall profits should go to oil producers or to the public in the form of tax reductions. The permanent tax reductions proposed depend upon the Government receiving these revenues and if the revenues are curtailed the tax reductions will need to be curtailed too. We have tried to design a tax that will not inhibit the investments in oil production which are economic and needed to reach production goals. If we believed that the tax would stifle needed investment, we would not propose it. Plowback and special exemptions would undoubtedly make existing oil producers wealthier than they would otherwise be, but we do not believe they would significantly increase oil production. It is taxpayers generally who are paying the prices that produce the windfall, and that is where the revenues should go.

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Q: What changes have been made in the Windfall Profits Tax now being proposed from that proposed in 1973?

A: It is essentially and conceptually the same as the 1973 proposal but it has been adjusted to take into account the passage of time and other events of the past year. The important changes are:

1. The tax rates have been increased so that they now range from 15 percent to 90 percent rather than from 10 percent to 85 percent.

2. The nontaxable level, called the adjusted base price, has been increased from $4.50/bbl on the average to $4.95/bbl on the average (about 10 percent) to take into account increased severance taxes, drilling expenses, equipment costs, etc., over the past year. The adjusted base price escalates monthly.

3. The speed at which the tax phases out (i.e., the adjusted base price increases) has been significantly slowed.

4. The taxable amount per barrel can never exceed 75 percent of net income on a per barrel basis.

Q: Why isn't the Administration proposing a Windfall Profits Tax on new natural gas if it is no longer going to be subject to price controls?

A: The Windfall Profits Tax proposed for oil was especially designed to fit the situation existing in that industry—that situation does not exist in the natural gas industry. The prices of natural gas sold in interstate commerce have been held so low that we are now experiencing shortages and curtailments. Because of our past regulatory practices, we cannot really tell what the net prices to producers would have to rise to for them to be sufficient to encourage the desired levels of additional production. Even unregulated gas prices have not risen to the point that they reflect, on a Btu equivalent basis, the price increases which have occurred in oil. Therefore, neither the interstate nor the intrastate gas seller is experiencing the windfalls being experienced by oil producers.

E. Alternative Proposals

Q: Wouldn't a system of rationing be more direct and fairer method of reducing oil consumption than that of the President's program?

A: No. I believe those who propose rationing do not have a clear understanding of what this would mean to the country.

To curb demand permanently, we would have to have a rationing program permanently probably and for a minimum of 5 years. Those favoring rationing must be thinking of a short-run, not a serious long-term program to end energy dependency. Further, by concentrating on gasoline, other opportunities to conserve petroleum products would be lost.

Rationing would be inequitable, no matter how conscientiously administered. There is no objective rule for determining "fair shares," between products, or among buyers of a given product. To meet our 1975 goal of reducing imports by 1 million barrels per day, a gas rationing system would have to limit each driver to 9 gallons of gasoline per week. That would be fair for some and unfair for others, and exceptions would have to be made.

In order to determine "fair share," a bureaucracy consisting of more than 20,000 employees, more than 3,000 local exception boards and costing more than $2 billion a year would be necessary.

In contrast to complex and expensive administrative rationing procedure which inevitably will impose hardships and distort economic growth, the President's program aims to give all buyers of oil freedom of individual choice. It lets them decide in their own best interests what quantities and in what form they wish to buy petroleum products, and in what way they will conserve petroleum products to reach our goal.

Q: Why are you not recommending the elimination of percentage depletion on oil at this time? I thought you said percentage depletion should go if prices were decontrolled.

A: We have said all along that the best way to capture the windfall profits which were accruing to domestic oil producers was not through the elimination of percentage depletion, but a windfall profits tax.

As a matter of tax reform—which we hope the Congress will take up just as soon as they can following their consideration of these proposals—we are willing to consider the entire subject of percentage depletion for oil, gas and all the other minerals, capital gains for timber, and anything else. But we shouldn't encumber this high priority program with that issue.

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Q: Wouldn't an increased gasoline tax be preferable to a tax on crude oil which affects the price of all petroleum products?

A: There are five principal reasons for preferring a tax on crude oil to a gasoline tax:

1. A price increase in crude oil is far more effective in reducing consumption than a tax on only one petroleum product—gasoline. For a tax on gasoline to be effective to reduce consumption in 1975 by 1 million barrels per day, it would have to be 45 or 50 cents per gallon.

2. If a 45 or 50 cents per gallon gasoline tax were imposed, it would produce revenues of over $45 billion. Returning $45 billion in a fair manner and without deflationary effects would be very difficult. In addition, a tax like this would have a much greater effect on consumer prices than the tax package we propose.

3. Crude oil—not gasoline—is what we want to reduce our reliance on. We should not play "Big Brother" and choose for every person in the U.S. whether to consume gasoline or some other petroleum product. People in the West may prefer gasoline to petro-chemical products. People in the East may prefer petro-chemical products to gasoline, and so forth. This country is built on allowing an individual as much freedom of choice as is consistent with society's safety.

4. There is just as much opportunity to cut "fat," or conserve our consumption of other petroleum products as there is in gasoline. When we waste electricity, we are stimulating oil imports either directly if the utility uses fuel oil or indirectly if the utility uses some other fuel, thus requiring others to import oil for their needs. Our trashcans are heaped with direct petroleum products, such as plastics, and many more which require large amounts of petroleum related energy to create, such as aluminium cans. We can conserve a little on a wide range of items and thus save a lot in total.

5. Faced with the choice of a large price increase on one item, say 50 cents a gallon on gasoline, or a moderate increase on all petroleum products, say 10 cents a gallon, we determined that it would be fairer to avoid a gigantic price change of about 100 percent on a sizeable and important segment of our society in favor of a moderate price increase on all of our society. Moreover, it is easier for the economy as a whole to accommodate a moderate, broadly based increase than a shockingly large, more narrowly based increase. In this way, we can avoid devastating the automobile industry, the travel industry, and many others which depend on gasoline for survival.

Q: Wouldn't a Btu tax be better than taxes on oil and gas?

A: No.

1. A uniform Btu tax would be heaviest in relation to existing prices on coal, next heaviest on gas, and lightest on petroleum. There are no social, political, or economic reasons for this kind of discriminatory taxation. Indeed, coal is our most abundant form of fossil fuel and it would be foolish to discourage its substitution for more costly energy sources.

2. Petroleum dependence on foreign sources is our principal energy problem, and the President's energy policy program addresses this directly by proposing decontrol and the imposition of taxes so that the full social cost of this resource will be known to all who would use this resource and, thereby, encourage economic conservation: Less energy usage and the substitution of other fuels and raw materials for petroleum.

3. The proposed decontrol of natural gas prices and the imposition of an excise tax on this presently underpriced energy resource is intended to allocate its use to those who need it most and prevent users of oil from attempting to switch to this already too scarce resource.

4. Altogether, the President's program aims to encourage development of substitute energy resources—nuclear, solar, and geothermal along with coal—by directly dealing with the trouble spots.

Q: Why does the President's energy program not include taxes on low mileage and heavy automobiles?

A: Proposals to impose taxes on low-mileage or heavy automobiles as a means to conserve fuel imply that higher costs will diminish consumption. But that effect occurs only as cars are replaced. Bringing about higher prices of fuel should induce people to buy more "energy-efficient" vehicles, appliances, and other energy-using equipment, but will also reduce consumption now.

To go further and impose what are tantamount to penalty taxes on vehicles or other commodities which fail to meet prescribed arbitrary energy consumption standards not only denies citizens freedom to make choices in the disposition of their incomes, it further implies that saving a barrel of oil in this manner is somehow worth more than saving a barrel in other ways.

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F. Residential Conservation Tax Credit

Q: How will the tax credit for storm windows, home insulation, etc., work?

A: The credit applies for improvements made in 1975, 1976 and 1977 only. The taxpayer will make the improvements and then claim a tax credit based on the cost of these improvements, on his tax return for the year. Thus, if a taxpayer in November of 1975 installs $1,000 of additional insulation in his home, he will be entitled to a 15 percent credit up to a maximum of $150 directly against his 1975 tax liability when he files his return for the year. The credit is limited to $150 per household for the 3-year period—that is, the taxpayer's spouse and dependent children are not also entitled to a $150 credit for improvement made to the home.

Q: What kinds of home improvements will qualify for the thermal insulation credit?

A: The cost of storm windows, insulation, weather-stripping of doors and windows and caulking would qualify. The cost of items which have a purpose other than retention of the house's inside temperature, such as shingles or brick walls with a special insulation quality, do not qualify.

II. Investment Tax Credit Proposals

Q: What special tax help is planned for utilities?

A: Utilities will receive a credit at the 12 percent rate for 1975, instead of the 4 percent they receive currently. The 50 percent of tax limitation on the amount of credit useable in any one year will be raised to 75 percent for 1975 declining to 70 percent in 1976, 65 percent in 1977 and so on until it gets to 50 percent in 1980. In addition, the 12 percent credit will continue for 1976 and 1977 for electrical generating facilities where the fuel used is neither gas nor oil. When the 12 percent rate is no longer applicable, the rate applicable to industry generally would apply to utilities as well.

Q: How will utilities treat the increased investment credit for rate-making purposes?

A: In general, present law disallows the credit to a utility if the rate-making authority requires the tax benefit to be flowed through immediately to customers in the form of reduced rates. Rate-making authorities are effectively required to permit utilities to enjoy the immediate cash flow advantages of the credit and to flow the benefits through to consumers only over the life of the property acquired. These rules should not be made less favorable to utilities.

Q: How will a 1-year-only increase in the credit work?

A: The same kind of rules we have had before for the credit going on or off will be adapted for this purpose. Property which was ordered but not yet acquired as of January 1, 1975, will qualify for the credit if acquired and placed in service before January 1, 1977. While this may result in an unexpected benefit to taxpayers in this situation, it is unavoidable because we do not want to create the havoc which could result from cancelling existing orders so they can be replaced with other orders after the effective date. If property is ordered by December 31, 1975, it can be delivered in 1975 or 1976 and placed in service during 1976 and still qualify. It is important that the property be placed in service no later than 1976 to spur activity in 1975. If it could be placed in service in 1985, though ordered in 1975, the desired incentive effect obviously would be missing. For taxpayers who construct their own qualifying property (or have it constructed for them), the part of the construction which occurs during 1975 will qualify, without regard to when the property is placed in service. This "placed in service no later than 1976" rule serves no useful function for constructed property since the desired economic stimulation will occur in 1975 as the construction occurs.

Q: How does the increase in the 50 percent of tax limitation on the investment credit for public utilities work?

A: For 1975, the percentage limit on the amount of investment credit a utility can use to offset tax liability exceeding $25,000 is increased from 50 percent to 75 percent. In other words, if such excess tax liability for 1975 were $100,000, the amount of investment tax credit which a utility could use to offset the excess liability would be increased from $50,000 to $75,000. The 75 percent limit is reduced to 50 percent ratably over 5 years so that in 1980, utilities will be back to a 50 percent limitation.

Q: Even if the 12-percent credit is enacted by May 1, due to the "lag time" won't it fail to provide jobs quickly enough and merely fan new inflationary fires?

A: There is a lag time, and we hope that Congress will therefore act immediately on our proposal. Early enactment can lead to higher employment without a severe inflationary impact.

Q: Why should the 12-percent investment credit be extended for an additional 2 years for certain utilities? Aren't there other industries that need just as much help?

A: The special rule permitting certain electric utilities to obtain the 12-percent credit through 1977 will provide an incentive for investment in property using new power sources, including the conversion of existing oil- or gas-fired facilities. The proposal is thus directly linked to the President's new energy program.

We believe that the investment tax credit generally should be uniform, not selective. The exception in this case compensates for the past inequity of a 4-percent investment credit for utilities and a 7-percent credit for other industries and it invites regulatory commissions to permit fair returns for utilities to pay for expanded facilities by offering to share 12 percent of the cost of those facilities. We would not see any argument for an extra credit for any other industry.

Q: In view of the higher consumer costs associated with the pass-through of the energy burden, will you require regulatory commissions to pass through to consumers the tax saving resulting from the 12-percent investment credit?

A: Public utilities are confronted with two distinct problems—rising energy costs which consumers generally must bear and the need to restore investor confidence by attaining a higher rate of return on investment. If we required in all cases that the tax saving from the higher investment credit be immediately passed through in the form of lower rates, we would further impair the ability of public utilities to attract new investment and thus finance needed projects. The rules of present law with regard to the permissible treatment of the investment credit for rate-making purposes should certainly not be made less favorable to utilities.

Q: Some observers say that the investment tax credit should stay at 10 percent after 1975 and other economists have warned that the up-and-down movement of the investment credit would create a surge in capital spending this year and a falloff next year. What is your view?

A: We do expect that the increase in the investment credit will stimulate capital spending this year over what it otherwise would be. That is one of the purposes of the proposals.

So long as the economy is strong, we would expect capital spending in 1976 to also be strong.

We do believe that it is generally undesirable to turn the investment tax credit on and off, notwithstanding this proposed departure from that principle. The Administration proposed earlier that the credit be increased permanently to 10 percent, but only on condition that it be restructured to remove some features which caused it to operate very unequally between different companies and industries. We hope that Congress can consider that proposal and the broader question of business taxation when it moves into tax reform later this year.

III. Tax Reductions and Payments to Nontaxpayers

Q: Aren't the cash distributions for low-income persons a kind of negative income tax?

A: Such welfare reform is neither the intent of the proposal nor its effect. Cash distributions will merely return to low-income persons amounts which—on the average—will offset additional energy costs they must bear that are not made up through income tax changes. The distributions will not depend on the number of individuals in a family unit or on other concepts usually associated with welfare reform proposals.

Q: Under the permanent tax cut being proposed, how much reduction in income taxes will a married couple with $100,000 of income receive?

A: $130. On the other hand, a married couple with two children and income of $12,500 will receive an income tax reduction of $300.

Q: Will the proposed reductions in marginal tax rates increase the penalty on single persons?

A: In 1969 Congress reduced the marginal rates applicable to single persons so that a single person never pays more than 20 percent more in taxes than a married couple with the same amount of taxable income. The new rate schedules being proposed will meet this criterion.

Q: Doesn't the 1974 rebate give considerably more tax relief to high income families?

A: For most taxpayers, the rebate will be 12 percent of the 1974 liability. The $1,000 ceiling insures that taxpayers with tax liability in excess of $8,333 are limited to a rebate of $1,000. Only about 2 percent of all taxpayers will be subject to the ceiling. Taxpayers with more than $100,000 of income will only receive a rebate of 1.5 percent of their 1974 liability.

Percent oi total benefit which goes to taxpayers with AGI less than:	*Percent*
$10, 000	15. 1
$15, 000	36. 0
$20, 000	56. 6
$50, 000	93. 4
$100, 000	98. 7

Q: How many individuals and families will receive no benefit from the rebate of 1974 taxes?

A: It is estimated that 17 million nontaxable returns will be filed for 1974. In addition, there are probably 5 million families and individuals who are not required to file Federal income tax returns and who are not claimed as dependents on someone's tax return.

Q: How many families and individuals will be made nontaxable by the increase in the low-income allowance?

A: 5.2 million.

Q: How many families and individuals who presently itemize will switch to the new low-income allowance?

A: 9.4 million. 60 percent of taxpayers now use the standard deduction. The proposed change will increase the percentage to 71 percent.

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Q: Wouldn't it be better to provide permanent tax relief for corporations in the form of more investment credit than in the form of rate reductions?

A: No.

1. The investment credit applies very unevenly to different industries.

2. It applies to only a limited class of assets, namely machinery or equipment. That class of investment represents less than 30 percent of our total capital stock and is not necessarily any more productive than other kinds of investment.

3. Rate reductions are much more neutral in their impact. They let corporations decide what kind of investments are most profitable in their own cases, and do not tilt the scale.

Q: The wealthy taxpayers in the country are most able to withstand our economic problems. Why are you also cutting taxes for these upper tax bracket individuals?

A: Solving our economic problems is everybody's business. We cannot solve every problem by letting upper income persons pay the bill—if for no other reason than the fact that there are not that many upper income taxpayers.

It is our aim to treat *everyone fairly.* In order to do that, we must keep in mind:

> Only about 12 percent of all taxpayers have gross income above $20,000, and they now pay about 52 percent of total individual income taxes. They will pay an even higher percentage of individual income taxes if our proposals are enacted.
>
> Upper income individuals have been adversely affected by inflation, just as lower income individuals. The prices of the things they buy have increased too, and since they buy more, the increase is greater. Also, inflation causes the income tax system to take an increasingly larger share of taxpayers' real incomes as money incomes (which is what is taxable) are pushed into higher brackets even though real incomes remain the same. This feature of the income tax law has adversely affected high income taxpayers just as it has affected lower income taxpayers. Everybody has had, in effect, an income tax increase because of inflation.
>
> Finally, we must also keep in mind that upper income taxpayers play a disproportionately large role in providing the investments which help everyone's income to increase.

Q: Why two steps for tax relief? Why not a one-shot permanent relief program?

A: We must not give permanent tax relief until we also provide commensurate reductions in expenditures or other sources of revenue. Otherwise, we shall guarantee major deficits for future years.

This year we will accept a larger deficit than would otherwise be desirable in order to get the economy started upwards. But a guaranteed escalation of deficits for future years would be a disaster. It would start inflation all over again at higher levels.

Q: Are the increased energy costs offset by the proposed tax reductions?

A: The proposed changes in the structure of the individual income tax stand on their own merits and were not designed primarily to offset increased energy costs.

However, the following table provides some guidance on the matter by indicating how much the tax reductions add to after-tax disposable income. It is after tax income which individuals have at their disposal to buy goods and services, including energy. If the cost of living goes up 1 percent, increase in after-tax income should leave the average taxpayer even. The table indicates that with a rise in prices of 2 percent or less, average taxpayers through the $15,000 AGI class will be ahead.

Adjusted gross income class (thousands)	After-tax income (billions)	Proposed tax reduction (billions)	Reduction as a percent of present after-tax income (percent)
0 to $3	21.7	0.3	[1] 1.2
$3 to $5	33.2	1.2	[1] 3.6
$5 to $7	46.0	2.0	4.2
$7 to $10	86.1	3.4	3.9
$10 to $15	183.1	4.7	2.6
$15 to $20	162.2	2.7	1.7
$20 to $50	235.6	2.2	.9
$50 to $100	36.5	.1	.3
$100 and over	21.7	(2)	.1
Total	826.1	16.5	2.0

[1] Many taxpayers in the 2 lowest income classes will benefit from the $80 special distribution.
[2] Less than 50,000,000.

PRESS
DEPARTMENT OF STATE

January 3, 1975

NO. 4

Charles W. Robinson
Sworn in as Under Secretary for Economic
Affairs

Charles W. Robinson of San Francisco, California, was sworn in today as Under Secretary of State for Economic Affairs.

Since 1965, Mr. Robinson has served as President and Manager of Marcona Corporation of San Francisco, California. In 1961, he became President and Managing Director of the Marcona Mining Company after having served as Executive Vice President and General Manager since 1959.

From 1952 to 1960 he was with the Utah Construction Company, serving as Assistant Treasurer, Assistant Secretary and Vice President. In 1951 he was named Manager of the Monterey Trading Company in Panama. From 1950 to 1951 he was an Associate with the management consulting firm of McKinsey & Company, Inc. In 1947 he was Assistant to Production Services Manager for the Golden State Dairy Products Company, serving until 1950.

Mr. Robinson was born on September 7, 1919, in Long Beach, California. He received he A.B. (cum laude) in 1941 from the University of California. He received his M.B.A. in 1947 from Stanford Unversity Graduate School of Business Administration. He served with the United States Navy from 1941 to 1946. From 1941 to 1942 he attended the United States Naval Academy Post Graduate School. From 1942 to 1943 he was an Engineering Instructor at the United States Naval Academy Post Graduate School and from 1943 to 1946 he was an Engineering Officer (Lieutenant) at sea.

He is married to the former Tamara Robinson and they have three children.

Mr. Robinson succeeds Mr. William J. Casey, now President of the Export-Import Bank, who resigned on March 14, 1974.

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DEPARTMENT OF STATE

July 24, 1974

No. 311

THOMAS O. ENDERS SWORN IN
AS ASSISTANT SECRETARY OF STATE
FOR ECONOMIC AND BUSINESS AFFAIRS

Thomas O. Enders, of Connecticut, a Foreign Service Officer, Class One, was sworn in today as Assistant Secretary of State for Economic and Business Affairs.

Born in Hartford, Connecticut, November 28, 1931, Mr. Enders received a B.A. degree in history and economics from Yale University in 1953, a Doctor of University degree in colonial history from the University of Paris in 1955, and an M.A. degree in economics from Harvard University in 1957.

Mr. Enders entered the Foreign Service in 1958, first serving in the Bureau of Intelligence and Research, Far East Division, and in 1960 was assigned to the American Embassy in Stockholm. Subsequently, he served as an International Economist in the Bureau of European Affairs, Special Assistant to the Under Secretary of State for Political Affairs and, in 1968, as Deputy Assistant Secretary for International Monetary Affairs in the Bureau of Economic Affairs.

Mr. Enders was assigned to Belgrade as Deputy Chief of Mission in 1969. In January 1971, he was assigned to Phnom Penh as Deputy Chief of Mission, and he served there as Charge d'Affaires, ad interim, from September 1973.

Mr. Enders received the Arthur S. Flemming Award in 1970, as one of the ten outstanding young men in the Federal Government for his work in international monetary affairs.

Mr. Enders is married to the former Gaetana Marchegiano and they have three daughters, Domitilla, Alice and Claire, and one son, Thomas.

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Federal Energy News

Federal Energy Administration
Washington
D.C. 20461

FEDERAL BUILDING
WASHINGTON, D.C. 20461

BIOGRAPHY
ERIC R. ZAUSNER
ACTING DEPUTY ADMINISTRATOR
FEDERAL ENERGY ADMINISTRATION

Eric R. Zausner serves as Acting Deputy to FEA Administrator Frank G. Zarb in shaping and implementing the programs and policies of the Federal Energy Administration. He was appointed to that position Dec. 18, 1974.

Zausner also serves as FEA Assistant Administrator for Policy and Analysis. In that post, he managed the Project Independence Report, a multi-volume study of America's production and use of energy, which provides the analytical framework for development of a national energy policy.

Eric R. Zausner has served with the Federal Energy Administration since its inception in Dec. 1973, as the Federal Energy Office. He served initially as both Assistant Administrator for Economic and Data Analysis and Strategic Planning; and Acting Assistant Administrator for Energy Conservation and Environment.

Prior to his FEA service, Zausner was Deputy Assistant Secretary of the Interior for Energy. His responsibilities in that post included the development and direction of three new energy staff offices -- the Office of Energy Conservation, the Office of Energy Data and Analysis, and the Office of Energy Research and Development -- many of whose functions were subsequently incorporated into FEA.

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At Interior, Zausner also presided over the Office of Oil and Gas, the Office of Coal Research, and the energy-related activities of the Bureau of Mines and the Geological Survey. He worked directly with the Assistant Secretary for Energy and Minerals in overall energy policy matters.

Zausner has served as a Senior Staff Member on the President's Council on Environmental Quality. His responsibilities included the direction of all economic and quantitative analysis and policy development in solid waste and energy.

Prior to his position with the Council, Zausner served as Chief of the Management Sciences Section, Bureau of Solid Waste Management, now the Office of Solid Waste Management Programs of the Environmental Protection Agency.

Zausner received his Master of Business Administration degree in Finance from the Wharton School, University of Pennsylvania, and a Bachelor of Science degree in Electrical Engineering from Lehigh University.

Zausner resides with his wife, Marjorie, in McLean, Virginia.

-FEA-

BIOGRAPHY

GERALD L. PARSKY

Gerald L. Parsky was confirmed June 17, 1974 as Assistant Secretary of the Treasury with responsibilities for Trade, Energy, and Financial Resources Policy Coordination. In this capacity, he serves as Executive Secretary of the East-West Trade Policy Committee, the Joint U.S.-Saudi Arabian Commission on Economic Cooperation, and is coordinator of economic and financial relations with Middle Eastern countries, including Saudi Arabia, Egypt, Kuwait, and Israel.

Mr. Parsky had been Executive Assistant to the Deputy Secretary of the Treasury, William E. Simon, since January of 1973. He also served as Mr. Simon's Executive Assistant in the Federal Energy Office.

Mr. Parsky came to the Treasury Department in 1971 as Special Assistant to Edwin S. Cohen, Assistant Secretary for Tax Policy and later Under Secretary of the Treasury. Prior to coming to Washington, he was an Associate in the New York law firm of Mudge, Rose, Guthrie and Alexander, specializing in corporate and securities law. He also served as an English Master at Suffield Academy, Suffield, Connecticut.

Mr. Parsky was born October 18, 1942 in West Hartford, Connecticut. He received his A.B. degree (cum laude) from Princeton University in 1964, and his J.D. degree, with honors, from the University of Virginia Law School in 1968.

He is married to the former Susan Haas (Pembroke College, B.A. 1967; Bank Street College, M.A. 1971). They have two children and reside in Washington, D.C.

December 31, 1974

9:30 a.m., January 16, 1975

SECRETARY SIMON:

I am going to be here only briefly. This week I have had very important negotiations going on at the International Monetary Fund, which will carry me through tomorrow, and attempting to change constantly from a domestic hat to an international hat has been a bit of a problem.

I thought it important that we call this briefing this morning so you could talk to Ed Fiedler and Fred Hickman, our Assistant Secretary for Economic Policy and Assistant Secretary for Tax Policy, respectively, about the President's State of the Union proposals.

These form a truly integrated and comprehensive program that has to be taken as a unit. And as with all such units it is not a fruit basket from which people can pick and choose the parts they like and forget the rest. For instance, we all know that everybody loves a tax cut; nobody likes a tax increase. So we are going to work terribly hard with the Congress to have it enacted as a package.

At the outset, I think I ought to talk for a second about the direction or thrust of the President's program. Philosophy is a word I don't particularly like because I prefer to live and deal in the real world.

It will take more time than this Administration has to move away from the massive government control of many years, and to better utilize the marketplace. But we must make a start.

You can go two routes: either to more government controls -- or you can take the route of the marketplace, with decision-making being given back to the American people and with less encroachment by the Federal government.

The government today has 33 percent of our Gross National Product. It is growing at what the President and I consider alarming proportions. Before the turn of the century, it will certainly be over 50 percent, which would effectively end the system of free enterprise that we have had in this country -- and which has provided the highest standards of living and the greatest prosperity on earth.

I recognize that there are people who think it's a good idea to have more government, that government is more capable of making decisions for America.

Well, I am sorry; this not a philosophy that this Administration, or our President, or I can abide in.

When I talk about freedom, that is not just an idle term. It means you are free to do what you wish to do, and this great freedom is inextricably linked with economic freedom. If the government takes away your economic freedom, your social and political freedoms will not be far behind.

That is a brief overview of the way we approach the problem and the two routes we could travel. People say rationing is equitable -- but I wish you could have had the benefit of sitting with me when we designed the various rationing programs a year ago this time.

Anyone who thinks a program of rationing in this very complex economy is equitable ought to think it through very carefully. Especially should he think about government decision-making and the government employees who will make the decisions down here not only about how you drive to work each day and what you are allowed to do, but whether you are allowed to open a business, how much fuel will be allocated and the political pressures that spring up as to the decisions by government.

I don't think that is the way our economy should be run.

Anyway, I can go on with this subject at great length, and I realize today in many quarters what I say is pretty unpopular stuff; but it is something I very deeply believe in and I guess we will be debating with Congress over coming days the more controversial aspects of our program.

As I said, I have been deeply involved with the IMF Ministers night and day all week, and I will be again today and tomorrow. However, I intend to make myself available to the press in the days and weeks ahead on quite a few occasions because, as we work through the legislative process, there are going to be lots of questions that are going to be asked, and we want to be as responsive to these questions as we can.

This program that the President announced on Monday and yesterday involved some painful decisions for the President because he, like other members of his economic team, is a firm believer in fiscal discipline.

Yet as the leader of all our people, our President knew that millions of Americans were suffering under the present economic circumstances -- and, therefore, that some measures were required that involved a shift of emphasis.

It is a measure of his capacity as a leader in this country that he had the courage to chart a new course and a new emphasis in the direction of his policy. It also ought to be reassuring for this country to know that when we pull out of the recession, which surely we are going to, that we have a man of his philosophy at the helm, for he personally understands what is necessary in the long run to rebuild the foundations of our economy.

I just want to make one thing clear this morning, and that is that this Administration is fully behind our President; we are united in his proposals, and we believe the American people will unite behind him as well.

Three weeks ago we heard a lot of critics who said we were still fighting inflation at the cost of unemployment and recession, and now we are hearing that we are fighting unemployment at the expense of inflation.

I must admit that I feel both views are rather off the mark.

The President continues to fight inflation and recession because they are both part of the same disease, as we have said over and over again.

Obviously, pressures have been put on the price structure throughout our economy. Prices are declining and competition is reasserting itself. The inflation rate is beginning to decline.

There has been a change, obviously, in our policy. This change, as I stress, is a change in emphasis. We are significantly stepping up the battle against recession because our economy is sliding downhill more rapidly than we expected two months ago.

Consumer confidence, which is a fragile thing, can never be predicted by anyone -- not that anyone can predict many other events, either. But this is especially difficult to do, and consumer confidence has been shattered in this country by a combination of factors -- most recently, I believe, by the frightening double-digit inflation we have experienced during this year.

The important thing to understand is that we are not abandoning our long-run battle against inflation.

As you were told in the briefings yesterday, we do expect some slight increase in inflation as a result of the President's programs on the energy side -- approximately two percentage points in the Consumer Price Index.

While the cost of these actions is higher than we would like, we believe the cost of inaction in terms of unemployment and hardship would be much higher.

I think these programs are bold, but I don't believe they are reckless. They are the right medicine at the right time for the right reasons.

Let's emphasize one thing: economic policy does not get put into place like concrete. I think there is some confusion in the country today that when the President puts out a proposal, that this is what it will be for all time, and that is going to solve the problem and then we can all get back to work again.

Economic policy is an ever-evolving mechanism -- one that requires change to match changing circumstances. As changes and events occur that no one can predict at this time, so shifts in our policy reflect our responses to these changes.

In lifting our country out of the doldrums, we have attempted to be extremely careful to avoid actions which would set off another inflationary spiral. That is why we have placed heavy emphasis on limiting the tax cut to just one year and, most importantly, on putting a mandatory ceiling on new spending programs.

We <u>must</u> stop the explosive growth of federal spending in this country. Both of these actions -- the one-year moratorium on new spending programs and the absolute spending limit with the exception of any energy proposals that would cost money -- are imperative in order to keep a lid on prices.

I said a week ago that the President's program would be tough and comprehensive and effective. We believe that is exactly what it is, and will prove out to be,if we give it a chance.

As I say, this program is not a fruit basket. It is a cocktail, and it should be taken in its entirety. At the same time I recognize that we do go through a democratic process of debate which I will start in the House Ways and Means Committee next week on the Hill -- where we will be going to discuss not only our tax proposals but also a debt ceiling increase request.

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I think as we approach the financial aspects of this problem with the Congress, they will understand the magnitude of the problem and see the wisdom, as I believe the American people will see the wisdom, that we have to get this crazy government spending under control once and for all -- and the time to start is right now.

I have about three minutes and I will assure you that I will be back next week to talk to you again. And if you have any special requests, you can get in touch with Jim Sites and I will be as available as I have always tried to be within the limits other duties place on me.

QUESTION:

As you know, there have been a good many published stories in recent days that you are on the way out.

Can you tell us what your status is, and are you still the Administration's chief economic spokesman?

SECRETARY SIMON:

I am the chief economic spokesman and Chairman of the Economic Policy Board. If I am on my way out, I have not been told that, nor have I submitted my resignation.

I have said that I am serving at the pleasure of the President and I intend to continue to do that.

QUESTION:

Do you have any intention of resigning?

SECRETARY SIMON:

No, sir.

QUESTION:

Do you know the origin of these stories?

SECRETARY SIMON:

No, I don't. I think I have learned a great deal since I have been in government and I will go home a wiser man in many respects, but the one thing I am absolutely positive that I will not know when I go home is who "the White House source" is that everyone cites.

QUESTION:

Mr. Simon, does the size of the projected deficit in the President's budget concern you?

SECRETARY SIMON:

I would say the size of the deficit horrifies me. I think that is a problem. What you have to do is take a look at the origin of the deficit. It is induced through the recession, which causes the Treasury revenues to drop, and through certain programs such as public service employment that are necessary during the recessionary period to take care of those that bear the disproportionate burden of our battle against inflation and recession; it also reflects most importantly the growth in federal spending that is automatic year after year, as illustrated by the $4.7 billion plan of deferrals and recisions the President sent to Congress before they went home in December.

That is $4.7 billion this fiscal year, but it becomes $7 billion next fiscal year -- and judging by any past standards on what Congressional action would be, it could later become 10, 12, 15, 20 billion; it just gets locked into a spiral which is alarming.

That is why 75 percent of our expenditures in our budget today are so-called "uncontrollables." Yet, as I have often said, I don't buy this uncontrollable business because nothing is uncontrollable. Admittedly, it takes legislation to change this.

We have to form this partnership with the Congress, and that is what we would be attempting to do to begin to change and re-order some of the priorities.

We cannot continue to promise the American people absolute instant prosperity in every single sector in the magnitude that we have been doing, especially for the past decade, without paying enormous bills for it. And the bills, as the President said yesterday, are coming due right now.

We had pretty high bills in 1966. We refused to pay them. We refused to pay them again in 1969 and 1970. Today they are even higher.

I suggest if we don't win the battle this time, the next time the bills will be presented, they will be unacceptably high and I think that is very dangerous for the American way of life.

QUESTION:

Taking account of the circumstances as they exist, do you think the President's program is too stimulative and do you think the deficit is too large?

SECRETARY SIMON:

I do not believe that the President's program is too stimulative. Actually, the tax cut is for one year. We must get the economy rolling again to take care of one side of the equation that I spoke of a minute ago, and that will produce an increase of Treasury revenues which will narrow this deficit.

It is not going to narrow it in time for us not to have strains in our capital markets, however, because we are going to have an impact on the capital markets where we encroach on the centerpiece of the free enterprise economy that supplies the needed capital for productive capacity and new jobs and cheaper goods and services. Each year the government is taking a larger and larger share of it, and the arithmetic is pretty simple: Government at all levels is going to be taking about 80 percent of the traditional debt markets -- the traditional markets that industry at all levels borrows from -- and that is horrible.

Thank you, ladies and gentlemen -- I will look forward to seeing you again soon.

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

FOR RELEASE ON DELIVERY

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REMARKS BY THE HONORABLE EDWARD C. SCHMULTS
UNDER SECRETARY OF THE TREASURY
BEFORE THE NATIONAL SAVINGS AND LOAN LEAGUE
MAYFLOWER HOTEL, WASHINGTON, D.C.
MONDAY, JANUARY 27, 1975, 12:30 P.M., EST

I am happy to be here with you today to discuss the Financial Institutions Act and its prospects in 1975. Exhaustive, in-depth hearings were conducted on the Act in the 93rd Congress by Senator McIntyre's Subcommittee on Financial Institutions, and I am sure that most of you are familiar with the general nature of the reform program. The basic thrust of the legislation is to provide a minimum, balanced set of structural financial reforms. We believe that the Administration's proposals will, among other things, strengthen thrift institutions and allow them to manage change in the future.

The basic problem that has increasingly come to plague savings institutions is their structural inability to adapt to changing financial conditions quickly enough. The crises of disintermediation during periods of monetary restraint and the distress caused by comparatively mild institutional innovations, such as the variable rate note of last summer, are symptomatic of this difficulty. The mortgage portfolios of savings and loan associations are the justification for their existence. But, as you know, at the same time they are at the root of the problem. The relatively slow turnover of their mortgage portfolios makes it difficult for thrifts to respond to change, especially where such response may require a greater competitiveness with respect to savers. The traditional remedy in the past has been for the industry to turn to the Government for support. But the remedy has created problems of its own. Perhaps chief among these is the impact of Federal agency borrowings on the capital markets. Since the need for additional agency finance is greater during periods of tight money, Federal support has been partially self-defeating in that it has made it even more difficult for thrifts to compete for deposits.

WS-206

The FIA (Financial Institutions Act) seeks to resolve the basic problem of thrift institutions by a restructuring so as to provide them with the ability to compete more effectively on their own. The FIA makes for greater flexibility and adaptability by increasing both asset and depository freedom. Savings institutions will be allowed to hold a more varied portfolio of earning assets, such as consumer loans and commercial paper which have a high rate of turnover. The earnings from these instruments are sensitive to changing market conditions and, thus, they provide a flexible source of funds. This will reduce the critical impact of tight money by raising yields sufficiently to enable thrifts to compete for savings deposits and/or "buy time" as the low-yielding oldest portion of the mortgage portfolio rolls over. It also provides a source of funds for new, higher-yielding mortgage assets.

Expanded deposit powers, including demand deposits and NOW accounts, will promote the broadened concept of thrifts as centers for family financial services. Thrifts will prove more profitable if well managed. Only the degree of ingenuity and innovativeness of thrift institution managers will limit the profitability of these operations.

Because of these and other reform provisions of the FIA, we expect that the competitive strength of thrift institutions will increase materially. We anticipate (and we have some empirical support for this) that the net volume of savings flows to thrifts, and probably to all financial institutions, will increase. In particular, even though savings institutions will become more diversified than at present, the larger flows of savings will support larger extensions of mortgage credit, and housing is expected to benefit materially from financial reform.

Increased flexibility and responsiveness of financial institutions were our objectives when we first introduced the FIA in the fall of 1973. The introduction followed an almost two-year review and implementation program regarding the findings of the Hunt Commission. The planning was carried out in cooperation with all of the depository regulatory agencies, and involved extensive consultation with affected groups.

By necessity, then, the program contained elements of compromise, consisting of much that was desired by and useful to individual classes of institution but also some measures that were thought to be objectionable.

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When the bill was introduced, there was a natural response by affected institutions of discounting the potential benefits of the program and magnifying the potential costs. There was opposition to the FIA by the savings and loan and housing industries, who saw in the eventual abolition of Regulation Q and other deposit rate ceilings an immediate threat to their viability. This fear was intensified by the brief but fierce competition for deposits following the introduction of "wild card" CDs during the summer of 1973.

The Administration has maintained the position that the ceiling rates are a self-defeating means of protection necessitated by the structural inability of thrifts to compete effectively. It is our view that ceilings force small savers to subsidize mortgage credit borrowers and at the same time encourage disintermediation because of the low interest rate relative to the yields available on other money-market instruments.

As the policy of monetary restraint pursued by the Federal Reserve in 1974 to combat inflation intensified, and as interest rates rose, agreement on the need for financial reform became more widespread. Despite a substantial effort by Federal agencies involved in housing finance, net mortgage creation and housing starts were totally inadequate during 1974. Savings flows at insured savings and loan associations fell by $4.8 billion during the first eleven months of 1974 compared to the same period during 1973, and the flow of mortgage repayments fell by over $3.4 billion. $6-1/4 billion in home loan advances were important, but insufficient to reverse these pressures. As a result, mortgage loans made or acquired by Federally-insured savings and loan associations were some $9.9 billion less than for the comparable period during 1973. A greater effort by the Federal agencies might well have placed greater pressure on the already strained capital markets, raising the level of interest rates even higher and providing even greater incentive for depositors to shift their funds into higher yielding, alternative investments, such as Treasury or agency paper or the liquid asset mutual funds, which grew rapidly during the period.

By the fall of 1974 it appeared that most of the affected financial institutions viewed reform as necessary, and were in closer agreement on the need to focus such reform on the extension of asset and deposit powers. As this growing coalescence of attitudes become apparent, and since the FIA would have to be resubmitted during 1975, the Treasury Department decided to formally meet with the industry representatives to attempt to bridge the remaining gaps preventing agreement.

A series of such meetings were held in November and December, and as a result there will be some modifications in the form of the FIA during 1975. The basic intent and the thrust of the legislation remains unchanged.

Probably the two most important changes, from your point of view, concern the eventual abolition of Regulation Q and all other deposit rate ceilings, and the substitution of the mortgage interest tax credit for the bad debt loss reserve deduction you currently enjoy. It seems that we are closer to agreement on both these issues than might be apparent simply by reading position papers and testimony. I am optimistic that our restatement of Titles I and VII of the FIA will result in a bill that will enjoy your enthusiastic support.

At present Regulation Q and other deposit rate ceilings must be renewed periodically; otherwise, they automatically cease to exist. Although there is usually little difficulty in securing an extension of the regulations, there is no guarantee that this will always be the case. In addition, preparation of support for the preservation of the ceilings requires time, effort, and expense.

Our revised Title I extends deposit rate ceilings continuously for a period of 5-1/2 years and will require no periodic renewal by the Congress. We are confident that the expanded powers given you by other provisions of the Act will strengthen your competitive position to such an extent that at the end of that period of time you will no longer require the protection of the ceilings.

We are proposing some changes in what is to take effect during the 5-1/2 year period. First, the Act as written now calls for the phase out of the differential over four years, starting 18 months after the bill is enacted. A portion would be phased out for each of the four years. We are now proposing that the Act be silent regarding the phase out of the differential. Since the differential in most cases is only one-fourth of a percent, a gradual phase out seems unnecessary.

Second, prior to the end of the 5-1/2 year period, we are recommending that the Administration conduct a thorough review of how the financial system is functioning to determine whether or not the FIA has worked to the full extent we expect it to. We will submit recommendations based upon our findings to the Congress at that time. Congress will take whatever remedial action it feels is desirable. If Congress decides no further action is necessary, the ceilings will expire.

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Although we realize that the 96th Congress will not be bound by the conditions set by the 94th Congress, we anticipate that the possibility of a permanent end to the ceiling will spur savings institutions to integrate the new powers into their structure as rapidly as possible. Equally important will be the competitive incentives encouraging thrifts to profitably use their powers to take advantage of changing economic, technological, and institutional changes. We are confident that the restructuring proposed in the FIA will enable the thrift industry to gain strength and independence, savers to receive a wider variety and a higher level of services, and the housing industry to benefit from the resulting increase in savings flows.

Turning now to the mortgage tax credit and the bad debt loss reserve tax deduction: The mortgage tax credit is probably our best assurance that the housing market will not suffer as the reforms contained in the FIA are phased in. The tax credit would give almost 70 basis points to savings and loan associations and over 50 basis points to mutual savings banks, on average, for each mortgage they accept at current market rates. This would provide a considerable incentive for these institutions to maintain or increase mortgage flows.

Another strong advantage of this measure is that it is countercyclical in nature. As interest rates rise, the tax value of the credit on new loans rises proportionately. This is when the credit is most needed by thrift institutions. When interest rates fall, however, the basic conditions for successful operations of thrift institutions reassert themselves, and it is then that the tax value of the credit falls. The mortgage tax credit provides our economy with an efficient automatic stabilizer for the housing industry, one that has been badly needed for years, one that presents few administrative problems and that can be modified fairly easily if warranted by economic conditions.

Your Association commissioned one of the best studies on this topic to date. In it Dr. Beiderman and his associates suggest that "the mortgage tax credit procedure might be offered as a possible substitute for the loss reserve formula; i.e., each association could then select the more beneficial of the two methods." This is precisely what we are doing in our revision of Title VII.

As it will be presented to Congress, the FIA will permit each thrift institution a one-time option to shift from the bad debt loss reserve method to the mortgage tax credit.

The switch would be made at the option of the individual thrift institution, but once having made the decision an institution would not then be able to switch back. Because the value of the bad debt loss reserve deduction is to decline to 40 percent by 1979 pursuant to the Tax Reform Act of 1969 and the prospect of a return to the low mortgage rates of the 1950's in the near term are unlikely, the mortgage tax credit will probably offer a greater tax advantage than the present method in the near future. Indeed, John Stafford of the U.S. League estimates that in 1972, when the bad debt deduction was most favorable relative to the credit, forty-four percent of the approximately 2,100 thrifts sampled would have found the mortgage interest tax credit resulting in a lower tax bill. By 1979 we expect virtually all thrifts to have opted for this treatment. It is proposed that thereafter, in order to simplify administration of the law, the bad debt loss deduction be eliminated.

There are other, and from your point of view minor, changes in the FIA. We believe that the net impact of all of the modifications is to define a program of financial reform that deserves your warmest support. You are certainly aware that this support is necessary to assure speedy passage through the Congress, and I'd like to re-emphasize our view that it is to your advantage, and that of the entire Nation, to get the bill signed into law as quickly as possible.

The FIA does not contain all of the reforms needed by the financial system. However, we do not see the FIA as the only vehicle of financial reform. We expect that other efforts at restructure and reform will be made, and we will welcome these insofar as they reinforce the objectives of this program.

Right now there is a certain amount of breathing room as the current Federal Reserve policy of monetary ease lowers short-term interest rates relative to long-term yields and enhances your ability to compete for deposits. But, I believe that you should keep in mind that all of this can change practically overnight, as has been demonstrated twice during the past two years. In particular, whether the President's economic program, a Congressional economic program, or a blend of the two is enacted, huge new cash borrowings approaching $90 billion will be required by the Treasury during the next year and a half. This will certainly have an impact on capital markets and interest rates, to the extent that it is not offset by the Fed.

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As a result, it is important to enact the FIA program while there is still time to unhurriedly integrate its reforms into the structure of thrift institutions. The alternative is to trust to luck and Government support if another crunch should come. Depositors have learned more about alternative investments during the last tight money period. As a result, it is possible that the deposit outflows you experience the next time around will be even more sudden and severe. If this happens, you will get Government support. But such will burden the capital markets even further, putting additional pressure on interest rates and increasing further the potential for disintermediation.

The alternative, as we see it, is to meet periods of high interest rates with the increased ability to withstand them and even benefit from them. The reforms contained within the FIA will provide this additional strength. I urge your enthusiastic support for the program when it is reintroduced in the Congress.

Thank you.

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Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

THE DEPARTMENT OF THE TREASURY 1789

495

(91)

5.606 % This Week

6.369 % Last Week

FOR R... 1975

2.3 billion

of 26- ..., 1975,

were ... as follows:

RANGE

COMPET ... 1975

Lowest since 2/16/73

ent

Rate

5.455 %

%

%

% 1/

a/ Ex

b/ Ex

(182)

d 26%.

5.825 % This week

d 52%.

6.373 % Last week

TOTAL ... TS:

Dist	Accepted
Bost	9,875,000
New	1,364,500,000
Phil	9,860,000
Clev	28,850,000
Rich	14,550,000
Atla	34,585,000
Chic	71,840,000
St.	48,060,000
Minn	10,710,000
Kans	19,615,000
Dall	10,860,000
San	76,940,000
	2,300,245,000 d/

Lowest since 2/16/73

5.653 %

c/ Inc... noncompetitive tenders accepted at average price.

d/ Includes $ 169,060,000 noncompetitive tenders accepted at average price.

1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 5.77 % for the 13-week bills, and 6.09% for the 26-week bills.

FOR RELEASE 6:30 P.M.

January 27, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.6 billion of 13-week Treasury bills and for $2.3 billion of 26-week Treasury bills, both series to be issued on January 30, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing May 1, 1975			26-week bills maturing July 31, 1975		
	Price	Equivalent Annual Rate		Price	Equivalent Annual Rate	
High	98.610 a/	5.499%		97.079 b/	5.778%	
Low	98.575	5.637%		97.039	5.857%	
Average	98.583	5.606%	1/	97.055	5.825%	1/

a/ Excepting 2 tenders totaling $1,355,000
b/ Excepting 1 tender of $1,000,000

Tenders at the low price for the 13-week bills were allotted 26%.
Tenders at the low price for the 26-week bills were allotted 52%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 49,320,000	$ 28,750,000	$ 29,935,000	$ 9,875,000
New York	3,220,185,000	2,095,835,000	3,426,405,000	1,864,500,000
Philadelphia	33,270,000	30,215,000	34,860,000	9,860,000
Cleveland	68,770,000	68,020,000	69,040,000	28,850,000
Richmond	34,740,000	29,010,000	19,560,000	14,550,000
Atlanta	47,980,000	37,140,000	41,585,000	34,585,000
Chicago	282,340,000	118,740,000	193,220,000	71,840,000
St. Louis	39,790,000	25,810,000	57,280,000	48,060,000
Minneapolis	16,730,000	13,730,000	11,670,000	10,710,000
Kansas City	33,925,000	31,375,000	23,565,000	19,615,000
Dallas	32,555,000	20,555,000	22,860,000	10,860,000
San Francisco	225,800,000	101,405,000	259,500,000	176,940,000
TOTALS	$4,085,405,000	$2,600,585,000 c/	$4,189,480,000	$2,300,245,000 d/

c/ Includes $ 411,410,000 noncompetitive tenders accepted at average price.
d/ Includes $ 169,060,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 5.77 % for the 13-week bills, and 6.09% for the 26-week bills.

The Treasury Department
and
The United States Information Agency
press briefing for foreign correspondents
on
"THE UNITED STATES ECONOMY"
Monday, January 27, 10:30 a.m.
West Auditorium, U. S. Department of State
Access to the Auditorium only through the 23rd Street entrance
between C & E Streets

Briefing Schedule

10:30 a.m. Introduction: Mr. James Keogh, Director, USIA

Secretary of the Treasury, William E. Simon
"Economic Overview and Pattern of Remedial Actions"
(Secretary Simon will answer questions following his presentation)

11:00 a.m. Mr. Alan Greenspan, Chairman of the Council of Economic Advisors
"Economic Facts and Figures and Future Trends"
(Mr. Greenspan will answer questions following his presentation)

11:30 a.m. Mr. Jack F. Bennett, Under Secretary of the Treasury for Monetary Affairs
"International Aspects of the U.S. Economy"
(Mr. Bennett will answer questions following his presentation)

12:00 Noon Mr. Charles W. Robinson, Under Secretary for Economic Affairs, U.S. Department of State
Introductory remarks on Energy

PANEL: Mr. Thomas O. Enders, Assistant Secretary for Economic and Business Affairs, U.S. Department of State
"Energy -- Consumer Cooperative Efforts and Producer-Consumer Relations"

Mr. Eric Zausner, Acting Deputy Administrator, Federal Energy Administration
"Domestic Energy Imperatives"

Mr. Gerald L. Parsky, Assistant Secretary of Treasury for Trade, Energy and Financial Resources Policy
"Petrodollar Recycling and Worldwide Oil Outlook"

(Messrs. Enders, Zausner and Parsky will respond to questions as a panel following their presentations)

JAMES KEOGH

Born: October 29, 1916, Platte County, Nebraska.

Education: Bachelor of Philosophy in Journalism, Creighton University, 1938.

Marital Status: Married;
Children: Kevin, Katherine Ann (Mrs. Peter O. Crouse)
Two grandchildren.

Experience: Reporter and writer for the Omaha World-Herald, 1938-1948; City Editor of the Omaha World-Herald, 1948-1951; TIME magazine from 1951 to 1968 as writer, editor and executive, successively Contributing Editor, Associate Editor, Senior Editor, Assistant Managing Editor and Executive Editor; Chief of Research and Writing in the Nixon-for-President Campaign in August-November, 1968; Special Assistant to the President of the United States, specifically Chief of the White House Research and Writing staff, 1969-1970; Freelance Writer, 1971-1972; Director, United States Information Agency, 1973 to present.

Residence: 2827 North Quebec Street
Arlington, Virginia 22207

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BIOGRAPHICAL SKETCH OF SECRETARY OF THE TREASURY WILLIAM E. SIMON

William E. Simon was sworn in as 63rd Secretary of the Treasury on May 8, 1974. He had been nominated by President Nixon on April 17. When President Gerald Ford took office on August 9, 1974, he asked Mr. Simon to remain as Secretary.

The former New York investment banker had been serving both as Deputy Secretary of the Treasury and as Administrator of the new Federal Energy Office when named to succeed George P. Shultz.

Mr. Simon is Chairman of the President's Economic Policy Board. As Secretary and chief financial officer of the U.S., Mr. Simon plays a major role in formulating, recommending, and coordinating international monetary and trade policies as well as domestic and international economic and fiscal policies.

He also has a major responsibility for coordinating economic energy policy and in this capacity is a member of the President's Energy Resources Council. He further has major responsibility for coordinating energy and economic policy in international activities.

In his role as Secretary, Mr. Simon heads a department which has 110,000 employees who collect the nation's taxes, pay the nation's bills, keep track of the government's account, print its money, issue its coins and manage the public debt.

In addition, he has major law enforcement responsibilities in his role as supervisor of such agencies as the United States Secret Service, the U.S. Customs Service and the Alcohol, Tobacco and Firearms Bureau.

The Secretary of the Treasury has many additional offical duties, including:

Chairman of the National Advisory Council

Co-Vice Chairman of the East-West Trade Policy Committee

Chairman of the Joint U.S. - Saudi Commission on Economic Cooperation

Chairman of the U.S. - Israeli Commission on Economic Development

Chairman of the Federal Financing Bank

Chairman of the Environmental Financing Authority

United States Governor of the International Monetary Fund, International Bank for Reconstruction and Development, Inter-American Development Bank, and the Asian Development Bank

Chairman of the Emergency Loan Guarantee Board.

He also serves on the Council on Economic Policy, the Domestic Council, the Council on International Economic Policy, the Committee on Interest and Dividends, the U.S. - Egyptian Commission on Economic Development and on the U.S. Railway Association. He serves on many other groups involved in such problems as export expansion, oil policy, and the Joint Committee on Reduction of Federal Expenditures. In addition, he serves on many supervising boards, such as the policy group, at the Smithsonian Institution called "The Establishment."

Mr. Simon first joined the government in December 1972 as Deputy Secretary of the Treasury.

In December 1973, the President asked Deputy Secretary Simon to take on the additional duty as Administrator of the Federal Energy Office which was established by the President to coordinate energy policy within the Government. Mr. Simon served in both of these posts before becoming the Secretary of the Treasury. He also served as Chairman of the Oil Policy Committee, which was responsible for advising the President on oil import policies, from February 1973 which was abolished when the Committee on Energy was formed.

At the time of his nomination as Deputy Secretary, Mr. Simon was a Senior Partner of Salomon Brothers, a major institutional investment banking firm in New York. He had joined the firm in 1964, as one of the seven partners on the firm's executive Committee, responsible for the Government and Municipal Securities Department.

Mr. Simon was born on November 27, 1927 in Paterson, New Jersey. He was educated at Newark Academy and Lafayette College, where he received a B.A. degree in 1951. He began his career in finance in 1952 with Union Securities in New York, becoming an Assistant Vice President and Manager of the firm's Municipal Trading Department three years later. In 1957, he joined Weeden and Company as Vice President, a post he held until joining Salomon Brothers.

Mr. Simon has served on the Board of Governors and Executive Committee of the Investment Bankers Association of America, and on its Government Securities Committee. When that Association merged with the Association of Stock Exchange Firms in 1972 to form the new "Security Industry Association," Mr. Simon was elected to the Board of Directors and the Executive Committee and was appointed Chairman of the Public Finance Council.

He is founder and past President of the Association of Primary Dealers in U.S. Government Securities, and has been active in many public and private organizations, including serving as National Chairman of Fund Raising for the United States Olympic Committee, and Chairman of the Debt Management Committee of New York City. He is a trustee of Lafayette College, the Mannes College of Music in New York City, and Newark Academy.

He is married to the former Carol Girard and they have seven children. Mr. Simon and his family live in McLean, Virginia.

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December 1974

BIOGRAPHICAL SKETCH

Alan Greenspan was President of Townsend-Greenspan & Co., Inc. an economic consulting firm in New York City from 1954-1974.

Nixon for President Committee (1968-1969) ....

Director of Domestic Policy Research
Personal Representative of President-elect to Bureau of the Budget for the period of transition
Chairman, Task Force on Foreign Trade Policy

Presidential Appointments ....

Commission on an All-Volunteer Armed Force (1969-1970)
Commission on Financial Structure and Regulation (1970-1971)
Task Force on Economic Growth (1969)

Other Governmental Activities ....

Consultant to Council of Economic Advisers (1970-1974)
Consultant to U.S. Treasury (1971-1974)
Consultant to Federal Reserve Board (1971-1974)
Member of the Secretary of Commerce's Economic Advisory Board (1971-1972)
Member of Securities and Exchange Commission's Central Market System Committee (1972)
Member of GNP Review Committee of the Office of Management and Budget (current)

Nongovernmental Associations ....

Member of Time Magazine's Board of Economists (1971-1974)
Senior Adviser to the Brookings Institution Panel on Economic Activity (1970-1974)
Past President (1970) and a Fellow of the National Association of Business Economists
Member of The National Economists Club (Washington, D.C.)(current)
Member, Conference of Business Economists (current)
Member of Board of Overseers, Hoover Institution on War, Revolution and Peace (1973-1974)

Directorships ....

Trans World Financial Co. (1962-1974)
General Cable Corporation (1973-1974)
Sun Chemical Corporation (1973-1974)
Dreyfus Fund (1970-1974)
Dreyfus Special Income Fund (1971-1974)
Dreyfus Liquid Assets, Inc. (1973-1974)
Standard & Poor's/InterCapital Income Securities, Inc. (1973-1974)
The Bowery Savings Bank (1974)

Educational Background ....

B.S. summa cum laude, M.A., New York University
Advanced graduate study, Columbia University, New York Univ.

Born - New York City, March 6, 1926

Mr. Greenspan has lectured extensively over the years on various business and economic subjects and contributed numerous articles to professional and business journals.

September 1, 1974

B I O G R A P H Y

JACK FRANKLIN BENNETT

Jack Franklin Bennett of Greenwich, Connecticut, was sworn in as Under Secretary of the Treasury for Monetary Affairs on July 9, 1974. Mr. Bennett served consecutively as Under Secretary of the Treasury from March 15, 1974 and prior to that time as Deputy Under Secretary to which position he was appointed on September 21, 1971.

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

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

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

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

September 20, 1974

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THE PRESIDENT'S 1975

STATE OF THE UNION MESSAGE

including

ECONOMY

and

ENERGY

1-27-75

EMBARGOED FOR RELEASE
UNTIL 1:00 P.M., EST

JANUARY 15, 1975

EMBARGOED FOR WIRE TRANSMISSION
UNTIL 10:00 A.M., EST

Office of the White House Press Secretary

THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

Twenty-six years ago, a freshman Congressman, a young fellow, with lots of idealism who was out to change the world, stood before Speaker Sam Rayburn in the well of this House and solemnly swore to the same oath you took yesterday. That is an unforgettable experience, and I congratulate you all.

Two days later, that same freshman sat in the back row as President Truman, all charged up by his single-handed election victory, reported as the Constitution requires on the State of the Union.

When the bipartisan applause stopped, President Truman said:

"I am happy to report to this Eighty-first Congress that the State of the Union is good. Our Nation is better able than ever before to meet the needs of the American people and to give them their fair chance in the pursuit of happiness. It is foremost among the nations of the world in the search for peace."

Today, that freshman Member from Michigan stands where Mr. Truman stood and I must say to you that the State of the Union is not good.

Millions of Americans are out of work. Recession and inflation are eroding the money of millions more. Prices are too high and sales are too slow.

more

(OVER)

This year's Federal deficit will be about $30 billion; next year's probably $45 billion. The national debt will rise to over $600 billion.

Our plant capacity and productivity are not increasing fast enough. We depend on others for essential energy.

Some people question their government's ability to make the hard decisions and stick with them. They expect Washington politics as usual.

Yet, what President Truman said on January 5, 1949, is even more true in 1975.

We are better able to meet the peoples' needs.

All Americans do have a fairer chance to pursue happiness. Not only are we still the foremost nation in pursuit of peace, but today's prospects of attaining it are infinitely brighter.

There were 59,000,000 Americans employed at the start of 1949. Now there are more than 85,000,000 Americans who have jobs. In comparable dollars, the average income of the American family has doubled during the past 26 years.

Now, I want to speak very bluntly. I've got bad news, and I don't expect any applause. The American people want action and it will take both the Congress and the President to give them what they want. Progress and solutions can be achieved. And they will be achieved.

My message today is not intended to address all the complex needs of America. I will send separate messages making specific recommendations for domestic legislation, such as General Revenue Sharing and the extension of the Voting Rights Act.

The moment has come to move in a new direction. We can do this by fashioning a new partnership between the Congress, the White House and the people we both represent.

Let us mobilize the most powerful and creative industrial nation that ever existed on this earth to put all our people to work. The emphasis of our economic efforts must now shift from inflation to jobs.

To bolster business and industry and to create new jobs, I propose a one-year tax reduction of $16 billion. Three-quarters would go to individuals and one-quarter to promote business investment.

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This cash rebate to individuals amounts to 12 percent of 1974 tax payments -- a total cut of $12 billion, with a maximum of $1,000 per return.

I call today on the Congress to act by April 1. If you do, the Treasury can send the first check for half the rebate in May and the second by September.

The other one-fourth of the cut, about $4 billion, will go to businesses, including farms, to promote expansion and create more jobs. The one-year reduction for businesses would be in the form of a liberalized investment tax credit increasing the rate to 12 percent for all businesses.

This tax cut does not include the more fundamental reforms needed in our tax system. But it points us in the right direction -- allowing us as taxpayers rather than the Government to spend our pay.

Cutting taxes, now, is essential if we are to turn the economy around. A tax cut offers the best hope of creating more jobs. Unfortunately, it will increase the size of the budget deficit. Therefore, it is more important than ever that we take steps to control the growth of Federal expenditures.

Part of our trouble is that we have been self-indulgent. For decades, we have been voting ever-increasing levels of Government benefits -- and now the bill has come due. We have been adding so many new programs that the size and growth of the Federal budget has taken on a life of its own.

One characteristic of these programs is that their cost increases automatically every year because the number of people eligible for most of these benefits increases every year. When these programs are enacted, there is no dollar amount set. No one knows what they will cost. All we know is that whatever they cost last year, they will cost more next year.

It is a question of simple arithmetic. Unless we check the excessive growth of Federal expenditures or impose on ourselves matching increases in taxes, we will continue to run huge inflationary deficits in the Federal budget.

If we project the current built-in momentum of Federal spending through the next 15 years, Federal, State, and local government expenditures could easily comprise half of our gross national product. This compares with less than a third in 1975.

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I am now in the process of preparing the budget submissions for fiscal year 1976. In that budget, I will propose legislation to restrain the growth of a number of existing programs. I have also concluded that no new spending programs can be initiated this year, except those for energy. Further, I will not hesitate to veto any new spending programs adopted by the Congress.

As an additional step toward putting the Federal government's house in order, I recommend a five percent limit on Federal pay increases in 1975. In all Government programs tied to the consumer price index -- including social security, civil service and military retirement pay, and food stamps -- I also propose a one-year maximum increase of 5 percent.

None of these recommended ceiling limitations, over which the Congress has final authority, are easy to propose, because in most cases they involve anticipated payments to many deserving people. Nonetheless, it must be done. I must emphasize that I am not asking you to eliminate, reduce or freeze these payments. I am merely recommending that we slow down the rate at which these payments increase and these programs grow.

Only a reduction in the growth in spending can keep Federal borrowing down and reduce the damage to the private sector from high interest rates. Only a reduction in spending can make it possible for the Federal Reserve System to avoid an inflationary growth in the money supply and thus restore balance to our economy. A major reduction in the growth of Federal spending can help to dispel the uncertainty that so many feel about our economy, and put us on the way to curing our economic ills.

If we do not act to slow down the rate of increase in Federal spending, the United States Treasury will be legally obligated to spend more than $360 billion in Fiscal Year 1976 -- even if no new programs are enacted. These are not matters of conjecture or prediction, but again of simple arithmetic. The size of these numbers and their implications for our everyday life and the health of our economic system are shocking.

I submitted to the last Congress a list of budget deferrals and recisions. There will be more cuts recommended in the budget I will submit. Even so, the level of outlays for fiscal year 1976 is still much too high. Not only is it too high for this year but the decisions we make now inevitably have a major and growing impact on expenditure levels in future years. This is a fundamental issue we must jointly solve.

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The economic disruption we and others are experiencing stems in part from the fact that the world price of petroleum has quadrupled in the last year. But we cannot put all of the blame on the oil-exporting nations. We in the United States are not blameless. Our growing dependence upon foreign sources has been adding to our vulnerability for years and we did nothing to prepare ourselves for an event such as the embargo of 1973.

During the 1960s, this country had a surplus capacity of crude oil, which we were able to make available to our trading partners whenever there was a disruption of supply. This surplus capacity enabled us to influence both supplies and prices of crude oil throughout the world. Our excess capacity neutralized any effort at establishing an effective cartel, and thus the rest of the world was assured of adequate supplies of oil at reasonable prices.

In the 1960s, our surplus capacity vanished and, as a consequence, the latent power of the oil cartel could emerge in full force. Europe and Japan, both heavily dependent on imported oil, now struggle to keep their economies in balance. Even the United States, which is far more self-sufficient than most other industrial countries, has been put under serious pressure.

I am proposing a program which will begin to restore our country's surplus capacity in total energy. In this way, we will be able to assure ourselves reliable and adequate energy and help foster a new world energy stability for other major consuming nations.

But this Nation and, in fact, the world must face the prospect of energy difficulties between now and 1985. This program will impose burdens on all of us with the aim of reducing our consumption of energy and increasing production. Great attention has been paid to considerations of fairness and I can assure you that the burdens will not fall more harshly on those less able to bear them.

I am recommending a plan to make us invulnerable to cut-offs of foreign oil. It will require sacrifices. But it will work.

I have set the following national energy goals to assure that our future is as secure and productive as our past:

-- First, we must reduce oil imports by 1 million barrels per day by the end of this year and by 2 million barrels per day by the end of 1977.

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-- Second, we must end vulnerability to economic disruption by foreign suppliers by 1985.

-- Third, we must develop our energy technology and resources so that the United States has the ability to supply a significant share of the energy needs of the Free World by the end of this century.

To attain these objectives, we need immediate action to cut imports. Unfortunately, in the short-term there are only a limited number of actions which can increase domestic supply. I will press for all of them.

I urge quick action on legislation to allow commercial production at the Elk Hills, California, Naval Petroleum Reserve. In order that we make greater use of domestic coal resources, I am submitting amendments to the Energy Supply and Environmental Coordination Act which will greatly increase the number of power plants that can be promptly converted to coal.

Voluntary conservation continues to be essential, but tougher programs are also needed -- and needed now. Therefore, I am using Presidential powers to raise the fee on all imported crude oil and petroleum products. Crude oil fee levels will be increased $1 per barrel on February 1, by $2 per barrel on March 1 and by $3 per barrel on April 1. I will take action to reduce undue hardship on any geographical region. The foregoing are interim administrative actions. They will be rescinded when the necessary legislation is enacted.

To that end, I am requesting the Congress to act within 90 days on a more comprehensive energy tax program. It includes:

-- Excise taxes and import fees totalling $2 per barrel on product imports and on all crude oil.

-- Deregulation of new natural gas and enactment of a natural gas excise tax.

-- Enactment of a windfall profits tax by April 1 to ensure that oil producers do not profit unduly. At the same time I plan to take Presidential initiative to decontrol the price of domestic crude oil on April 1.

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The sooner Congress acts, the more effective the oil conservation program will be and the quicker the Federal revenues can be returned to our people.

I am prepared to use Presidential authority to limit imports, as necessary, to assure the success of this program.

I want you to know that before deciding on my energy conservation program, I considered rationing and higher gasoline taxes as alternatives. Neither would achieve the desired results and both would produce unacceptable inequities.

A massive program must be initiated to increase energy supply, cut demand and provide new standby emergency programs to achieve the independence we want by 1985. The largest part of increased oil production must come from new frontier areas on the Outer Continental Shelf and from the Naval Petroleum Reserve No. 4 in Alaska. It is the intention of this Administration to move ahead with exploration, leasing and production on those frontier areas of the Outer Continental Shelf where the environmental risks are acceptable.

Use of our most abundant domestic resource -- coal -- is severely limited. We must strike a reasonable compromise on environmental concerns with coal. I am submitting Clean Air Act amendments which will allow greater coal use without sacrificing our clean air goals.

I vetoed the strip mining legislation passed by the last Congress. With appropriate changes, I will sign a revised version into law.

I am proposing a number of actions to energize our nuclear power program. I will submit legislation to expedite nuclear licensing and the rapid selection of sites.

In recent months, utilities have cancelled or postponed over 60 percent of planned nuclear expansion and 30 percent of planned additions to non-nuclear capacity. Financing problems for that industry are growing worse. I am therefore recommending that the one year investment tax credit of 12 percent be extended an additional two years to specifically speed the construction of power plants that do not use natural gas or oil. I am also submitting proposals for selective changes in State utility commission regulations.

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To provide the critical stability for our domestic energy production in the face of world price uncertainty, I will request legislation to authorize and require tariffs, import quotas or price floors to protect our energy prices at levels which will achieve energy independence.

Increasing energy supplies is not enough. We must also take additional steps to cut long-term consumption. I therefore propose:

-- Legislation to make thermal efficiency standards mandatory for all new buildings in the United States. These standards would be set after appropriate consultation with architects, builders and labor.

-- A new tax credit of up to $150 for those home owners who install insulation equipment.

-- The establishment of an energy conservation program to help low income families purchase insulation supplies.

-- Legislation to modify and defer automotive pollution standards for 5 years to enable us to improve new automobile gas mileage 40 percent by 1980.

These proposals and actions, cumulatively, can reduce our dependence on foreign energy supplies to 3-5 million barrels per day by 1985. To make the United States invulnerable to foreign disruption, I propose standby emergency legislation and a strategic storage program of 1 billion barrels of oil for domestic needs and 300 million barrels for defense purposes.

I will ask for the funds needed for energy research and development activities. I have established a goal of 1 million barrels of synthetic fuels and shale oil production per day by 1985 together with an incentive program to achieve it.

I believe in America's capabilities. Within the next ten years, my program envisions:

-- 200 major nuclear power plants,

-- 250 major new coal mines,

-- 150 major coal-fired power plants,

-- 30 major new oil refineries,

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-- 20 major new synthetic fuel plants,

-- the drilling of many thousands of new oil wells,

-- the insulation of 18 million homes,

-- and construction of millions of new automobiles, trucks and buses that use much less fuel.

We can do it. In another crisis -- the one in 1942 -- President Franklin D. Roosevelt said this country would build 60,000 aircraft. By 1943, production had reached 125,000 airplanes annually.

If the Congress and the American people will work with me to attain these targets, they will be achieved and surpassed.

From adversity, let us seize opportunity. Revenues of some $30 billion from higher energy taxes designed to encourage conservation must be refunded to the American people in a manner which corrects distortions in our tax system wrought by inflation.

People have been pushed into higher tax brackets by inflation with a consequent reduction in their actual spending power. Business taxes are similarly distorted because inflation exaggerates reported profits resulting in excessive taxes.

Accordingly, I propose that future individual income taxes be reduced by $16.5 billion. This will be done by raising the low income allowance and reducing tax rates. This continuing tax cut will primarily benefit lower and middle income taxpayers.

For example, a typical family of four with a gross income of $5,600 now pays $185 in Federal income taxes. Under this tax cut plan, they would pay nothing. A family of four with a gross income of $12,500 now pays $1,260 in Federal taxes. My plan reduces that by $300. Families grossing $20,000 would receive a reduction of $210.

Those with the very lowest incomes, who can least afford higher costs, must also be compensated. I propose a payment of $80 to every person 18 years of age and older in that category.

State and local governments will receive $2 billion in additional revenue sharing to offset their increased energy costs.

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To offset inflationary distortions and to generate more economic activity, the corporate tax rate will be reduced from 48 percent to 42 percent.

Now, let me turn to the international dimension of the present crisis. At no time in our peacetime history has the state of the Nation depended more heavily on the state of the world. And seldom if ever has the state of the world depended more heavily on the state of our Nation.

The economic distress is global. We will not solve it at home unless we help to remedy the profound economic dislocation abroad. World trade and monentary structure provides markets, energy, food and vital raw materials -- for all nations. This international system is now in jeopardy.

This Nation can be proud of significant achievements in recent years in solving problems and crises. The Berlin Agreement, the SALT agreements, our new relationship with China, the unprecedented efforts in the Middle East -- are immensely encouraging. But the world is not free from crisis. In a world of 150 nations, where nuclear technology is proliferating and regional conflicts continue, international security cannot be taken for granted.

So let there be no mistake about it: international cooperation is a vital fact of our lives today. This is not a moment for the American people to turn inward. More than ever before, our own well-being depends on America's determination and leadership in the world.

We are a great Nation -- spiritually, politically, militarily, diplomatically and economically. America's commitment to international security has sustained the safety of allies and friends in many areas -- in the Middle East, in Europe, in Asia. Our turning away would unleash new instabilities and dangers around the globe which would, in turn, threaten our own security.

At the end of World War II, we turned a similar challenge into an historic achievement. An old order was in disarray; political and economic institutions were shattered. In that period, this Nation and its partners built new institutions, new mechanisms of mutual support and cooperation. Today, as then, we face an historic opportunity. If we act, imaginatively and boldly, as we acted then, this period will in retrospect be seen as one of the great creative moments of our history.

The whole world is watching to see how we respond.

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A resurgent American economy would do more to restore the confidence of the world in its own future than anything else we can do. The program that this Congress will pass can demonstrate to the world that we have started to put our own house in order. It can show that this Nation is able and willing to help other nations meet the common challenge. It can demonstrate that the United States will fulfill its responsibility as a leader among nations.

At stake is the future of the industrialized democracies, which have perceived their destiny in common and sustained it in common for 30 years.

The developing nations are also at a turning point. The poorest nations see their hopes of feeding their hungry and developing their societies shattered by the economic crisis. The long-term economic future for the producers of raw materials also depends on cooperative solutions.

Our relations with the Communist countries are a basic factor of the world environment. We must seek to build a long-term basis for coexistence. We will stand by our principles and our interests; we will act firmly when challenged. The kind of world we want depends on a broad policy of creating mutual incentives for restraint and for cooperation.

As we move forward to meet our global challenges and opportunities, we must have the tools to do the job.

Our military forces are strong and ready. This military strength deters aggression against our allies, stabilizes our relations with former adversaries and protects our homeland. Fully adequate conventional and strategic forces cost many billions, but these dollars are sound insurance for our safety and a more peaceful world.

Military strength alone is not sufficient. Effective diplomacy is also essential in preventing conflict and building world understanding. The Vladivostok negotiations with the Soviet Union represent a major step in moderating strategic arms competition. My recent discussions with leaders of the Atlantic Community, Japan and South Korea have contributed to our meeting the common challenge.

But we have serious problems before us that require cooperation between the President and the Congress. By the Constitution and tradition, the execution of foreign policy is the responsibility of the President.

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In recent years, under the stress of the Vietnam War, legislative restrictions on the President's capability to execute foreign and military decisions have proliferated. As a member of the Congress, I opposed some and approved others. As President, I welcome the advice and cooperation of the House and Senate.

But, if our foreign policy is to be successful we cannot rigidly restrict in legislation the ability of the President to act. The conduct of negotiations is ill suited to such limitations. For my part, I pledge this Administration will act in the closest consultations with the Congress as we face delicate situations and troubled times throughout the globe.

When I became President only five months ago, I promised the last Congress a policy of communication, conciliation, compromise and cooperation. I renew that pledge to the new members of this Congress.

To sum up:

America needs a new direction which I have sought to chart here today -- a change of course which will:

-- put the unemployed back to work;

-- increase real income and production;

-- restrain the growth of government spending;

-- achieve energy independence; and

-- advance the cause of world understanding.

We have the ability. We have the know-how. In partnership with the American people, we will achieve these objectives.

As our 200th anniversary approaches, we owe it to ourselves, and to posterity, to rebuild our political and economic strength. Let us make America, once again, and for centuries more to come, what it has so long been -- a stronghold and beacon-light of liberty for the world.

GERALD R. FORD

THE WHITE HOUSE,

January 15, 1975.

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THE WHITE HOUSE

FACT SHEET

THE PRESIDENT'S STATE OF THE UNION MESSAGE

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THE PRESIDENT'S ECONOMIC AND TAX PROGRAM

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The President's Economic and Tax Program

The President's State of the Union Address outlined the nation's current economic situation and outlook, and his economic and tax program which are designed to wage a simultaneous three-front campaign against recession, inflation and energy dependence.

BACKGROUND

The U.S. economy is faced with the closely linked problems of inflation and recession. During 1974, the economy experienced the highest rate of inflation since World War II. Late in 1974, when a recession set in, unemployment rose sharply to over 7 percent, the highest level in 13 years.

Accelerated inflation had its roots in the policies of the past and several recent developments not subject to U.S. control. Specifically:

-- Excessive Federal spending and lending for over a decade and too much money and credit growth.

-- Unusually poor harvests contributed heavily to world-wide food shortages and escalating food prices.

-- World petroleum product prices increased dramatically due to the Arab nations' embargo on shipments of oil to the U.S., the quadrupling of the price of crude oil by the OPEC nations, and their sharp reductions in crude oil production to maintain higher prices. Higher energy prices were passed through in the prices of other products and services.

-- The decline in U.S. domestic production of oil and natural gas that began in the 1960's also contributed to higher energy prices.

— An economic boom occurred simultaneously in the industrialized nations of the world.

— There were two international devaluations of the dollar.

Inflation contributed strongly to the forces of recession:

— The real purchasing power of workers' paychecks was reduced.

— Inflation also reduced consumer confidence, contributing to the most severe slump in consumer purchasing since World War II.

— Inflation forced interest rates to very high levels, draining funds out of financial institutions that supply most mortgage loans and thus sharply reducing construction of homes.

— Federal Government spending and lending programs, accounting for over half the funds raised in capital markets, reduced the amount of money available for capital investments needed to raise productivity and increase living standards.

CURRENT SITUATION AND NEAR-TERM OUTLOOK

The economy is now in a full-fledged recession and unemployment will rise further. Inflation continues at a rapid pace and the need to take immediate steps to conserve energy will further complicate the problem initially.

There are no instant cures. A careful and balanced policy approach is required. It will take time to yield full results. There is, however, no prospect of a long and deep economic downturn on the scale of the 1930's.

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MAJOR ELEMENTS OF THE PRESIDENT'S ECONOMIC AND TAX PROGRAM

I. A $16 Billion Temporary, Anti-Recession Tax Reduction. This major reduction in taxes proposed for individuals and businesses is designed to restore consumer confidence and promote a recovery of production and employment. The recession is deeper and more widespread than expected earlier, but the tax reduction -- together with the easing of monetary conditions that has already taken place -- will support a healthy economic recovery. The tax reduction must be temporary to avoid excessive stimulus resulting in a new price explosion and congested capital markets. The temporary nature of the reduction is consistent with the long-term economic goals of achieving and maintaining reasonable price stability and raising the share of national output devoted to saving and capital formation.

II. Energy Taxes and Fees. Energy excise taxes and fees on petroleum and natural gas will reduce use of these energy sources and reduce the nation's need for importing expensive and insecure foreign oil. Removal of price controls from domestic crude oil (together with other energy actions) will encourage domestic oil production. A windfall profits tax would recover windfall profits resulting from crude oil decontrol. Energy taxes and fees are expected to raise $30 billion in new Federal revenues on an annual basis.

III. Permanent Tax Reduction Made Possible By Energy Taxes and Fees. The $30 billion annual revenue from energy conservation excise taxes and fees and the windfall profits tax on crude oil would be returned to the economy through a major tax cut, a cash payment for non-taxpayers, and direct distribution to governmental units. Tax reductions are designed to go mainly to low-and middle-income taxpayers.

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IV. <u>One Year Moratorium on New Federal Spending Programs</u>. The moratorium on new spending programs proposed by the President will permit the Federal Government to move toward long-term budget responsibility and to avoid refueling inflation when the economy begins rising again.

V. <u>Budget Reductions</u>. The President will propose significant spending reductions in his Fiscal Year 1976 Budget. The reductions total more than $17 billion, including $7.8 billion savings from reductions proposed last year and $6.1 billion from the 5 percent ceiling to be proposed on Federal employee pay increases and on Federal benefit programs that rise automatically with the Consumer Price Index.

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SPECIFIC PROPOSALS ANNOUNCED BY THE PRESIDENT

I. A Temporary, Anti-Recession Tax Cut of $16 Billion. The President proposed a temporary, tax reduction of approximately $16 billion to provide prompt stimulus to consumer spending and business investment. The tax cut is divided 75 percent to individuals and 25 percent to corporations, which is approximately the ratio that individual income taxes bear to corporate income taxes. The cuts would be:

A. A Tax Reduction for Individuals of $12 Billion.

1. Individuals will receive a cash refund equal to 12 percent of their 1974 tax liabilities, as reported on their 1974 tax returns now being filed, up to a limit of $1,000. Married couples filing separately would receive a maximum refund of $500 each.

2. The temporary reduction will be a uniform 12 percent for all taxpayers up to about the $41,000 income level where the $1,000 maximum takes effect, and will then be a progressively smaller percentage for taxpayers above that level.

3. The refund will be paid in two equal installments in 1975 with payments of the first installment beginning in May and the second in September.

4. The proposal does not affect in any way the manner in which taxpayers complete and file their 1974 tax returns. They will file and pay their tax in accordance with existing law, without regard to the tax reduction. Later they will receive their refund checks from the Internal Revenue Service. Because no changes in deductions and other such items are involved, the Internal Revenue Service will be able to determine the amount of the refund and mail the checks without requiring further forms and computations from taxpayers.

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5. The effect of the tax refund can be illustrated for a family of four as follows:

Adjusted Gross Income	Present Tax	Proposed Refund	Percent Saving
$ 5,000	$ 98	$ 12	-12.0%
7,000	402	48	-12.0%
10,000	867	104	-12.0%
12,500	1,261	151	-12.0%
15,000	1,699	204	-12.0%
20,000	2,660	319	-12.0%
40,000	7,958	955	-12.0%
50,000	11,465	1,000	- 8.7%
60,000	15,460	1,000	- 6.5%
100,000	33,340	1,000	- 3.0%
200,000	85,620	1,000	- 1.2%

Although the taxpayer will not figure his own refund, it is a simple matter for him to anticipate how much the Internal Revenue Service will be sending him, by calculating 12 percent of his total tax liability for the year (on Form 1040 for 1974, it is line 18, page 1, and on Form 1040A, line 19).

B. A Temporary Increase in Investment Tax Credit for Business and Farmers of $4 billion.

1. There will be an increase for one year in the investment tax credit to 12 percent for all taxpayers, including utilities (which presently have, in effect, a 4 percent credit). Utilities will continue to receive a 12 percent credit for two additional years for qualified investment in electrical power plants other than oil- or gas-fired facilities.

2. This increase in the credit will provide benefits of $4 billion in 1975 to immediately stimulate job-creating investment. (In view of the need for speedy enactment and the temporary nature of the increased credit, this change does not include the basic re-structuring of the credit as proposed on a permanent basis in October, 1974.)

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3. With respect to utilities, it includes a temporary increase in the amount of credit which may be used to offset income tax. Under current law, not more than 50 percent of the income tax liability for the year may be offset by the investment credit. Since many utilities have credits they have been unable to use because of this limitation, under this proposal utilities will be permitted to use the credit to offset up to 75 percent of their tax liability for 1975, 70 percent for 1976, 65 percent for 1977 and so on, until 1980, when they will in five annual steps have returned to the 50 percent limitation applicable to industry generally.

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4. The 12 percent credit will apply to property placed in service during 1975 and to property ordered during 1975 if placed in service before the end of 1976. The credit will also be available to the extent of construction, reconstruction or erection of property by or for a taxpayer during 1975, without regard to the date ultimately placed in service. Similar rules will apply to investment in electrical power plants other than oil-or gas-fired facilities, for which the 12 percent credit will continue through 1977.

II. Energy Conservation Taxes and Fees. Energy taxes and fees, in conjunction with domestic crude oil price decontrol and the proposed windfall profits tax, would raise about $30 billion on an annual basis. The fees and taxes and related actions (discussed more fully in Part Two of this Fact Sheet) include:

A. Administrative Actions.

1. Import Fee -- The President is acting immediately within existing authorities to increase import fees on crude oil and petroleum products. These new import fees will be modified upon passage of the President's legislative package.

(a) Import fees on crude oil and petroleum products will be increased by $1 effective February 1, 1975; an additional $1 effective March 1; and another $1 effective April 1, for a total increase of $3.00 per barrel. Currently existing fees will also remain in effect.

(b) FEA's "Old Oil Entitlements" program will be utilized to spread price increases on crude among all refiners, and to lessen disproportionate regional effects, such as New England, or in any specific industries or areas of human need where oil is essential.

(c) As of February 1975, product imports will cease to be covered by FEA's "Old Oil Entitlements" program. In order to overcome any severe regional impacts that could be caused by large fees in import dependent areas, imported products will receive a fee rebate corresponding to the benefit which would have been obtained under that program. The rebate should be approximately $1.00 in February, $1.40 in March, and $1.80 per barrel thereafter.

(d) The import fee program will reduce imports by an estimated 500,000 barrels per day and generate about $400 million per month in revenues by April.

2. <u>Crude Oil Price Decontrol</u> -- To stimulate domestic production and further cut demand, steps will be taken to remove price controls on domestic crude oil by April 1, 1975, subject to congressional disapproval as provided by §4(g) of the Emergency Petroleum Allocation Act of 1973.

3. <u>Control of Imports</u> -- The energy conservation measures to be imposed administratively outlined above, the energy conservation taxes outlined below and other energy conservation measures covered in Part Two below, will be supplemented by the use of Presidential power to limit oil imports as necessary to fully achieve the President's goals of reducing foreign oil imports by one million barrels a day by the end of 1975 and by two million barrels before the end of 1977.

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B. Taxes Proposed to the Congress. The President asked the Congress to pass within 90 days a comprehensive energy conservation tax program which will raise an estimated $30 billion in revenues on an annual basis. The taxes proposed are:

1. Petroleum Excise Tax and Import Fee -- An excise tax on all domestic crude oil of $2 per barrel and a fee on imported crude oil and product imports of $2 per barrel.

2. Natural Gas Excise Tax -- An excise tax on natural gas of 37¢ per thousand cubic feet (mcf), the equivalent on a Btu basis to the $2 per barrel petroleum excise tax and import fee.

3. Windfall Profits Tax -- To ensure that the end of controls on crude oil prices does not result in one sector of the economy benefitting unfairly at the expense of other sectors, a windfall profits tax will be levied on the profits realized by producers of domestic oil. This tax is intended to recapture excessive profits which would otherwise be realized by producers as a result of the rise in international oil prices. This tax does not itself cause price increases, but simply recaptures the profits from price increases otherwise induced. It will, together with the income tax on such profits, produce revenues of approximately $12 billion. In aggregate, the windfall profits tax is sufficient to absorb all the profits that would otherwise flow from decontrolling oil prices, plus an additional $3 billion. More specifically the tax will operate as follows:

(a) A windfall profits tax at rates graduated from 15 percent to 90 percent will be imposed on that portion of the price per barrel that exceeds the producer's adjusted base price and therefore represents a windfall profit. The initial "adjusted base price" will be the producer's ceiling price per barrel on December 1, 1973 plus 95 cents to adjust for subsequent increased costs and higher price levels generally. Each month the bases will be adjusted upward on a specified schedule, which will gradually raise the adjusted base price to reflect long-run supply conditions and provide the incentive for new investment in petroleum exploration. Percentage depletion will not be allowed on the windfall profits tax liability.

(b) The windfall profits tax rates will be applied to prices per barrel in excess of applicable adjusted base prices as follows:

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Portion of price per barrel in excess of base and subject to tax	Amount of tax
Less than $0.20	15% of amount within bracket
$0.20, under $0.50	$0.03 plus 30% of amount within bracket
$0.50, under $1.20	$0.12 plus 60% of amount within bracket
$1.20, under $3.00	$0.54 plus 80% of amount within bracket
$3.00 and over	$1.98 plus 90% of amount within bracket

(c) The windfall profits tax does not include a "plowback" provision, nor does it contain exemptions for classes of production or producers. It does, however, include the limitation that the amount subject to tax may not exceed 75 percent of the net income from the barrel of crude oil. The tax will be retroactive to January 1, 1975.

(d) The windfall profits tax reduces the base for the depletion allowance.

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III. Permanent Tax Reductions and Payments to Non-Taxpayers Made Possible by Energy Conservation Taxes.

Of the \$30 billion in revenue raised annually by the proposed conservation taxes outlined above, about \$5 billion is paid by governments through the higher costs of energy in their purchases. This \$5 billion includes:

\$3 billion by the Federal government.
\$2 billion by state and local governments.

The President is proposing to the Congress that \$2 billion of the revenues be paid to State and local governments, pursuant to the distribution formulas applicable to general revenue sharing. The other \$25 billion will be returned to the economy mostly in the form of tax cuts. As in the case of the temporary tax reduction, this permanent change will be divided between individuals and corporations on a 75-25 percent basis, about \$19 billion for individuals and about \$6 billion for corporations. Specifically, this would include:

A. Reductions for Individuals in 1975 -- Tax cuts for individuals will be achieved in two ways: (1) through an increase in the Low Income Allowance and (2) a cut in the schedule of tax rates. In this way, tax-paying individuals will receive a reduction of approximately \$16 1/2 billion, with proportionately larger cuts going to low-and middle-income families. The Low Income Allowance will be increased from the present \$1,300 level to \$2,600 for joint returns and \$2,000 for single returns. That will bring the level at which returns are nontaxable to what is approximately the current "poverty level" of \$5,600 for a family of 4. In addition, the tax rates applicable to various brackets of income will be reduced. The aggregate effects of these changes are as follows:

(1975 Levels)
($billions)

Adjusted Gross Income Class ($000)	Income Tax Paid Under Present Law	Amount of Income Tax Reduction	Percentage Reduction in Income Tax (.......%......)
0 - 3	3	- .25	-83.3%
3 - 5	1.8	- 1.20	-66.7
5 - 7	4.0	- 1.96	-49.0
7 - 10	8.9	- 3.38	-38.0
10 - 15	21.9	- 4.72	-21.6
15 - 20	22.8	- 2.70	-11.8
20 - 50	44.4	- 2.15	- 4.8
50 - 100	13.5	- .11	- 0.8
100 and over	13.3	- .03	- 0.2
Total	130.9	-16.50*	-12.6

*Does not include payments to nontaxpayers

The effect of these tax changes can be illustrated for a family of 4, as follows:

Adjusted Gross Income	Present Tax 1/	New Tax	Tax Saving	Percent Saving
$ 5,600	$ 185	$ 0	$185	100.0%
7,000	402	110	292	72.6
10,000	867	518	349	40.3
12,500	1,261	961	300	23.8
15,000	1,699	1,478	221	13.0
20,000	2,660	2,450	210	7.9
30,000	4,988	4,837	151	3.0
40,000	7,958	7,828	130	1.6

1/ Calculated assuming Low Income Allowance or itemized deductions equal to 17 percent of income, whichever is greater.

B. Residential Conservation Tax Credit (Discussed in the Energy Section of this Fact Sheet). The President seeks legislation to provide incentives to homeowners for making thermal efficiency improvements, such as storm windows and insulation, in existing homes. This measure, along with a stepped-up public information program, could save the equivalent of over 500,000 barrels of oil per day by 1985. Under this legislation:

1. A 15 percent tax credit retroactive to January 1, 1975 for the cost of certain improvements in thermal efficiency in residences would be provided. Tax credits would apply to the first $1,000 of expenditures and can be claimed during the next three years.

2. At least 18 million homes could qualify for these tax benefits, estimated to total about $500 million annually in tax credits.

C. <u>Payments to Nontaxpayers of $2 billion</u>. The final component of the $19 billion distribution to individuals is a distribution of nearly $2 billion to nontaxpayers and certain low-income taxpayers. For this low-income group, a special distribution of $80 per adult will be provided, as follows:

1. Adults who would pay no tax, even without the tax reductions in A above, will receive $80.

2. Adults who receive less than $80 in such tax reductions will receive approximately the difference.

3. Persons not otherwise filing returns but eligible for these special distributions will make application on simple forms provided by the Internal Revenue Service on which they would furnish their name, address, social security number, and income.

4. For purposes of the special distribution, "adults" are individuals who during the year are at least 18 years old and who are not eligible to be claimed as a dependent under the Federal income tax laws.

5. Since most taxpayers will receive their 1975 income tax reductions in 1975 through reductions in withholding on wages and estimated tax payments, the special distribution to non-taxpayers and low-income

taxpayers will also begin in 1975. It is anticipated that disbursement, based on 1974 income can be made in the summer of 1975.

D. Tax Reductions for Corporations. The corporate rate will be reduced by 6 percentage points, effectively lowering the corporate rate from 48 percent to 42 percent for 1975. The resulting benefit in 1975 is estimated at about $6 billion.

IV. Moratorium on New Federal Spending Programs. The President announced that he would propose no new Federal spending programs except for energy. He also indicated that he would not hesitate to veto any new spending programs passed by the Congress. The need for the moratorium is demonstrated by preliminary FY 1976 Budget estimates:

	Fiscal Years			Percent Change	
	1974	1975	1976	75/74	76/7[illegible]
Revenues	264.9	280	303	5.7%	8.2[illegible]
Outlays	268.4	314	349	17 %	11.1[illegible]
Deficit	-3.5	32-34	45-47	--	--

NOTE: Estimates for 1975 and 1976 are subject to a variation of $2 billion in the final budget.

V. Budget Reductions.
The budget figures shown above assume that significant budget reductions proposed by the President are effected. Including reductions proposed in a series of special messages sent to the last session of Congress, these budget reductions total more than $17 billion. Of this total, over $6 billion will result from the proposed 5% ceiling on Federal pay increases and on those Federal benefit programs that rise automatically with the Consumer Price Index.

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The following summarizes reductions in 1976 spending to be included in the upcoming budget:

	(Outlays in billions)
Effect of budget reductions proposed last year (including administrative actions)	$8.9
Amounts overturned by the Congress	-1.1
Remaining savings	7.8
Further reductions to be proposed:	
Ceiling of 5% on Federal pay and programs tied to the CPI	6.1
Other actions planned . . .	3.6
Total reductions	17.5

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The following lists those programs to which the 5% ceiling will apply and shows spending amounts for them:

Effect of 5% Ceiling on Pay Increases
and Programs Tied to CPI
(Fiscal year estimates; Dollars in billions)

Programs Affected	1975 Outlays	1976 Outlays: Without ceiling	1976 Outlays: With ceiling	Difference 1975-1976 (with ceiling)
Social security ..	64.5	74.3	71.8	+7.3
Railroad retirement	3.0	3.4	3.3	+0.3
Supplemental Security Income	4.7	5.5	5.4	+0.7
Civil service and military retirement payments	13.5	16.2	14.9	+1.4
Foreign Service retirement ...	.1	.1	.1	*
Food stamp program	3.7	3.9	3.6	-0.1
Child nutrition	1.3	1.8	1.6	+0.3
Federal salaries:				
Military	23.2	23.1	22.5	-0.7
Civilian	35.5	38.9	38.0	+2.5
Coal miner benefits	1.0	1.0	1.0	*
Total	150.5	168.2	162.1	+11.7

* Less than $50 million.

The 5% ceiling will take into account increases that have already occurred since January 1, 1975. Under the plan, after June 30, 1976, adjustments would be resumed in the same way as before the establishment of the 5% ceiling. However, no catchup of the increases lost under the ceiling would take place.

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SUMMARY OF THE BUDGET IMPACT OF THE NEW TAXES AND FEES AND THE TAX CUTS

The following table summarizes the estimated direct budget impact, on a full-year-effective basis, of the tax and related changes proposed by the President to deal with the economic and energy situations:

Revenue Raising Measures	Estimated Amounts ($ billions)
Oil excise tax and import fee	+ 9 1/2
Natural gas excise tax	+ 8 1/2
Windfall Profits tax	+12
Total	+30

Revenue Disbursing Measures	Estimated Amounts ($ billions)
Energy rebates:	
Income tax cuts, individuals	-16 1/2
Residential tax credit	- 1/2
Nontaxpayer distribution	- 2
Corporate tax cut	- 6
State and local governments	- 2
Federal government costs	- 3
Subtotal	-30
Temporary economic stimulus:	
Individual tax refunds	-12
Investment credit increase	- 4
Subtotal	-16
Total Revenue Disbursing Measures	46

The tax and related changes will go into effect at different times, but all of them during the year 1975:

-- The energy conservation taxes are proposed to go into effect April 1.

-- The increase in import fees would go into effect

- $1 per barrel February 1.
- To $2 per barrel March 1.
- To $3 per barrel, if the energy taxes have not been enacted, April 1.

-- The windfall profits tax on crude oil would be effective as of January 1, 1975. First payments of the tax would be made in the third quarter.

-- The permanent tax cuts for individuals and corporations made possible by the revenues from the energy conservation taxes would be effective as of January 1, 1975. The changes in withholding rates for individuals are expected to go into effect on June 1. The withholding changes will be adjusted so that 12 months reduction is accomplished in the 7 months from June through December.

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-- The tax credit for energy-saving improvements to existing residences would go into effect as of January 1, 1975.

-- The special distribution to nontaxpayers is expected to be paid out in the summer of 1975.

-- The $2 billion distribution to State and local governments would be effective with the second quarter of 1975.

-- The temporary anti-recession tax cut for individuals will be paid out in two installments, in the second and third quarters.

-- The one-year increase in the investment tax credit becomes effective retroactively to January 1, 1975.

The timing of the various changes suggests a pattern of direct budget changes as follows. The timing of the economic stimulus or restraint will depend, as well on such factors as the indirect effects of the budget changes, the timing of the pass-through of higher energy costs to final users, the extent to which the changes are anticipated, and a variety of monetary and financial developments that arise out of these changes.

Timing of Direct Budget Impact

($ billions)

	Calendar Years							
	1975				1976			
	I	II	III	IV	I	II	III	IV
Energy Taxes	+0.2	+4.1	+12.6	+7.6	+7.6	+7.5	+7.5	+7.5
Return of Energy Revenues to Economy								
Tax Reduction	.0	-3.2	- 9.0	-9.0	-5.6	-7.9	-6.3	-6.4
Nontaxpayers			- 2.0				-2.0	
S&L Gov'ts	.0	-0.5	- 0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Federal Govt.	.0	.0	- 0.8	-0.7	-0.8	-0.7	-0.8	-0.7
Temporary Tax Cut	.0	-6.1	- 7.9	-0.6	-0.8	-0.9	0	0
Net Effect	+0.2	-5.7	- 7.6	-3.2	-0.1	-2.5	-2.1	-0.1

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INFLATION IMPACT

Both major parts of the tax package require inflation impact analysis. The excise taxes on crude oil and natural gas, combined with the tariff and decontrol of prices of both "old" oil and new natural gas, will add to the general price level immediately. The consumer price index is expected to rise by about two percent when these tax and price increases go into effect. However, this increase has a one-time impact on the price level that, with exceptions in some areas, should not add materially to inflationary pressures in future years.

The inflationary impact of the $16 billion anti-recession tax cut is more difficult to assess. While some economists may argue that a tax cut will add to the rate of inflation during the year ahead, others would contend that under present economic conditions, with unemployment high and many factories operating well below capacity, the predominant effect of the tax cut will be to stimulate spending, and that additional spending will have only a slight impact on prices.

Whatever the precise price impact of this $16 billion tax cut during 1975, the most important fact about it from the standpoint of inflation is that it is temporary. With the recession still under way, the rate of inflation will be coming down -- it will be too high, but nevertheless moving in the right direction. After the economy gets well into recovery, however, too much stimulus would be sure to reverse the slowing of the inflation rate and, indeed, start a new acceleration. Thus, the tax stimulus must be temporary rather than permanent.

The President has declared a moratorium on new Federal spending programs for this same reason. Budget expenditures are rising rapidly this year, in part, because of programs to aid the unemployed. That is acceptable and highly desirable in a recession to relieve the burden on workers who are affected. It is also desirable because spending under those programs phases out as the economy recovers and unemployment falls. The increased Federal spending is only temporary.

Over the long-term, however, both Federal spending and lending have been rising much too fast, a fact that accounts for a substantial part of our current economic problems. A new burst of expenditure programs cannot

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help the Nation recover from the current recession — the impact would come much too late — but it would surely do much inflationary harm as the economy returns to prosperous conditions in the years ahead. Therefore, at the same time that taxes are being reduced to support a healthy recovery, policies that would revive inflationary pressures must be avoided after the recovery is underway. The size of currently projected Federal budget deficits precludes introduction of new spending programs now that would raise inflationary pressures later. For this reason, the President requested that no new spending programs, except as needed in the energy area, be enacted so that we can regain control of the budget over the long-run and permit a gradual return to reasonable price stability.

PRESIDENTIAL PROPOSALS OF OCTOBER 8, 1974 RESUBMITTED FOR CONGRESSIONAL ACTION

In addition to the comprehensive set of economic and energy policies discussed in the State of the Union Message, the President asked that the new Congress pass quickly certain legislative proposals originally requested in his October 8, 1974, message. Those proposals would:

1. Remove restrictions on the production of rice, peanuts, and extra-long-staple cotton.

2. Amend P.L. 480 to waive certain restrictions on shipments of food under that Act to needy countries for national interest or humanitarian reasons.

3. Amend the Antitrust Civil Process Act to strengthen the investigation powers of the Antitrust Division of the Department of Justice.

4. Eliminate the U.S. Withholding tax on foreign portfolio investments to encourage such investment.

5. Allow dividends paid on qualified preferred stock to be an authorized deduction for determining corporate income taxes to increase incentives for raising needed capital in the form of equity rather than debt.

6. Create a National Commission on Regulatory Reform and take prompt action on other reforms of regulatory and administrative procedures that will be recommended in the future.

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7. Strengthen our financial institutions and provide a new tax incentive for investment in residential mortgages.

8. Permit more competition between different modes of surface transportation (The Surface Transportation Act).

9. Amend the Employment Act of 1946 to make explicit the goal of price stability. (Substitute "to promote maximum employment, maximum production, and stability of the general price level" in place of the present language, "to promote maximum employment, production and purchasing power.")

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The President's Energy Program
(including energy taxes and fees)

The President's State of the Union Address outlined the Nation's energy outlook, set forth national energy policy objectives, and described actions he is taking immediately and indicated proposals he is asking the Congress to pass.

BACKGROUND

Over the past two years, progress has been made in conserving energy, expanding energy R&D and improving Federal government energy organization. Despite such accomplishments, we have not succeeded in solving fundamental problems and our National energy situation is critical. Our reliance on foreign sources of petroleum is contributing to both inflationary and recessionary pressures in the United States. World economic stability is threatened and several industrialized nations dependent upon imported oil are facing severe economic disruption.

With respect to the U.S. energy situation:

-- Petroleum is readily available from foreign sources -- but at arbitrarily high prices, causing massive outflow of dollars, and at the risk of increasing our Nation's vulnerability to severe economic disruption should another embargo be imposed.

- Petroleum imports remain at high levels even at present high prices.

- Domestic oil production continues to decline as older fields are depleted and new fields are years from production; 8.8 million barrels per day in 1974 compared to 9.2 million in 1973.

- Total U.S. petroleum consumption is increasing, although at slower rates due to higher prices.

-- Natural gas shortages are forcing curtailment of supplies to many industrial firms and denial of service to new residential customers. (14% expected this winter versus 7% last year.) This is resulting in unemployment, reductions in the production of fertilizer needed to increase food supplies, and increased demand for alternative fuels -- primarily imported oil.

-- Coal production is at about the same level as in the 1930's.

-- Nuclear energy accounts for only 1 percent of total energy supply and new plants are being delayed, postponed or cancelled.

-- Overall energy consumption is beginning to increase again.

-- U.S. vulnerability to economic and social impact from an embargo increases with higher imports and will continue to do so until we reverse current trends, ready standby plans, and increase petroleum storage.

Economic impacts of the four-fold increase in OPEC oil prices include:

-- Heavy outflow of U.S. dollars (and, in effect, jobs) to pay for growing oil imports -- about $24 billion in 1974 compared to $2.7 billion in 1970.

-- Tremendous balance of payments deficits and possible economic collapse for those nations of Europe and Asia that must depend upon expensive imported oil as a primary energy source.

-- Accumulation of billions of dollars of surplus revenues in oil exporting nations -- approximately $60 billion in 1974 alone.

U.S. ENERGY OUTLOOK

I. Near-Term (1975-1977): In the next 2-3 years, there are only a few steps that can be taken to increase domestic energy supply particularly due to the long lead time for new production. Oil imports will thus continue to rise unless demand is curbed.

II. Mid-Term (1975-1985): In the next ten years, there is greater flexibility. A number of actions can be taken to increase domestic supply, convert from foreign oil to domestic coal and nuclear energy, and reduce demand -- if the Nation takes tough actions. Vulnerability to an embargo can be eliminated.

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III. Long-Term (Beyond 1985): Emerging energy sources can play a bigger role in supplying U.S. needs -- the results of the Nation's expanded energy research and development program. U.S. independence can be maintained. New technologies are the most significant opportunity for other consuming nations with limited domestic resources.

NATIONAL ENERGY POLICY GOALS AND PRINCIPLES ANNOUNCED BY THE PRESIDENT

I. Near-Term (1975-1977): Reduce oil imports by 1 million barrels per day by the end of 1975 and 2 million barrels by the end of 1977, through immediate actions to reduce energy demand and increase domestic supply.

(A) With no action, imports would be about 8 million barrels per day by the end of 1977, more than 20 percent above the 1973 pre-embargo levels.

(B) Acting to meet the 1977 goal will reduce imports below 1973 levels, assuring reduced vulnerability from an embargo and greater consumer nation cooperation.

(C) More drastic short-term reductions would have unacceptable economic impacts.

II. Mid-Term (1975-1985): Eliminate vulnerability by achieving the capacity for full energy independence by 1985. This means 1985 imports of no more than 3-5 million barrels of oil per day, all of which can be replaced immediately from a strategic storage system and managed with emergency measures.

(A) With no action, oil imports by 1985 could be reduced to zero at prices of $11 per barrel or more -- or they could go substantially higher if world oil prices are reduced (e.g., at $7 per barrel, U.S. consumption could reach 24 million barrels per day with imports of above 12 million, or above 50% of the total.)

(B) The U.S. anticipates a reduction in world oil prices over the next several years. Hence, plans and policies must be established to achieve energy independence even at lower prices -- countering the normal tendency to increase imports as the price declines.

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(C) Actions to meet the 1985 goal will hold imports to no more than 3-5 million barrels per day even at $7 per barrel prices. Protection against an embargo of the remaining imports can then be handled most economically with storage and standby emergency measures.

III. Long-Term (Beyond 1985): Within this century, the U.S. should strive to develop technology and energy resources to enable it to supply a significant share of the Free World's energy needs.

(A) Other consuming nations have insufficient fossil fuel resources to reach domestic energy self-sufficiency.

(B) The U.S. can again become a world energy supplier and foster world energy price stability -- much the same as the nation did prior to the 1960's when it was a major supplier of world oil.

IV. Principles: Actions to achieve the above national energy goals must be based upon the following principles:

-- Provide energy to the American consumer at the lowest possible cost consistent with our need for secure energy supplies.

-- Make energy decisions consistent with our overall economic goals.

-- Balance environmental goals with energy requirements.

-- Rely upon the private sector and market forces as the most efficient means of achieving the Nation's goals, but act through the government where the private sector is unable to achieve our goals.

-- Seek equity among all our citizens in sharing of benefits and costs of our energy program.

-- Coordinate our energy policies with those of other consuming nations to promote interdependence, as well as independence.

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ACTIONS ANNOUNCED TODAY BY THE PRESIDENT

I. ACTIONS ANNOUNCED BY THE PRESIDENT TO MEET NEAR-TERM GOALS (1975-1977)

To meet the national goals, the President outlined a comprehensive program of legislative proposals to the Congress which he requested be enacted within 90 days and administrative actions that he will begin implementing immediately. The legislative package is more effective and equitable than the administrative program, but the President indicated that the seriousness of the situation demanded immediate action. These actions will reduce overall energy demand, increase domestic production, increase conversion to coal, and reduce oil imports. They include:

(A) Administrative Actions

1. Import Fee -- Because of the seriousness of the problem and because time is required for Congressional action on his legislative proposals, the President is acting immediately within existing authorities to increase the import fees on crude oil and petroleum products. These new import fees would be modified upon passage of the President's legislative package.

(a) Import fees on crude oil and petroleum products under the authority of the Trade Expansion Act of 1962, as amended, will be increased by $1 effective February 1, 1975, an additional $1 effective March 1; and another $1 effective April 1, for a total increase of $3.00 per barrel. Currently existing fees will also remain in effect.

(b) FEA's "Old Oil Entitlements" program will be utilized to spread price increases on crude among all refiners and to lessen disproportionate regional effects, particularly in the Northeast.

(c) As of February 1975, product imports will cease to be covered by FEA's "Old Oil Entitlements" program. In order to overcome any severe regional impacts that could be caused by large fees in import dependent areas, imported products will receive a rebate corresponding to the benefit which would have been obtained under that program. The rebate should be approximately $1.00 in February, $1.40 in March, and $1.80 per barrel in April.

(d) This import fee program would reduce imports by about 500,000 barrels per day. In April it would generate about $400 million per month in revenues.

2. Backup Import Control Program -- The energy conservation measures and tax proposals will be supplemented by the use of Presidential power to limit oil imports as necessary to achieve the near-term goals.

3. Crude Oil Price Decontrol -- To stimulate production and further cut demand, steps will be taken to remove price controls on domestic crude oil by April 1, 1975, subject to congressional disapproval as provided by §4(g) of the Emergency Petroleum Allocation Act of 1973.

4. Increase Public Education on Energy Conservation -- Energy Resources Council will step up its efforts to provide information on energy conservation methods and benefits.

(B) Legislative Proposals

1. Comprehensive Tax and Decontrol Program -- The President asked the Congress to pass within 90 days a comprehensive legislative package which could lead to reduction of oil imports of 900,000 barrels per day by 1975 and 1.6 million barrels by 1977. Average oil prices would rise about $4.00 per barrel of $.10 per gallon. The package which will raise $30 billion in revenues on an annual basis includes:

(a) Windfall Profits Tax -- A tax on all domestic crude oil to capture the windfall profits resulting from price decontrol. The tax would take 88% of the windfall profits on crude oil and would phase out over several years. The tax would be retroactive to January 1, 1975.

(b) Petroleum Excise Tax and Import Fee -- An excise tax on all domestic crude oil of $2 per barrel and a fee on imported crude oil and product imports of $2 per barrel. The new, administratively established import fee of $3 on crude oil would be reduced to $2.00 and $1.20 fee on products would be increased to $2.00 when the tax is enacted. The product import fee would keep the excise tax from encouraging foreign refining and the related loss of jobs to the U.S.

(c) New Natural Gas Deregulation -- Remove Federal interstate price regulation on new natural gas to increase domestic production and reduce demand for scarce natural gas supplies.

(d) Natural Gas Excise Tax -- An excise tax on natural gas of 37¢ per thousand cubic feet (mcf), which is equivalent on a Btu basis to the $2 per barrel petroleum excise tax and fee. This will discourage attempts to switch to natural gas and acts to reduce natural gas demand curtailments. Since the usual results of gas curtailments is a switch to oil, this will limit the growth of oil imports.

2. Elk Hills Naval Petroleum Reserve. The President is asking the Congress to permit production of the Elk Hills Naval Petroleum Reserve (NPR #1) under Navy control. Production could reach 160,000 barrels per day early in 1975 and 300,000 barrels per day by 1977. The oil produced would be used to top off Defense Department storage tanks, with the remainder sold at auction or exchanged for refined petroleum products used by the Department of Defense. Revenues would be used to finance further exploration, development and production of the Naval petroleum reserves and the strategic petroleum storage.

3. Conversion to the Use of Domestic Coal. The President is asking the Congress to amend the Clean Air Act and the Energy Supply and Environmental Coordination Act of 1974 to permit a vigorous program to make greater use of domestic coal to reduce the need for oil. This program would reduce the need for oil imports by 100,000 barrels per day in 1975 and 300,000 barrels in 1977. These amendments would extend FEA's authority to grant prohibition orders from 1975 to 1977, prohibit powerplants early in the planning process from burning oil and gas, extend FEA enforcement authority from 1978 to 1985, and make clear that coal burning

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installations that had originally planned to convert from coal to oil be eligible for compliance date extensions. It would give EPA authority to extend compliance dates and eliminate restrictive regional environmental limitations. A plant could convert as long as its own emissions do not exceed ambient air quality standards.

II. ACTIONS ANNOUNCED BY THE PRESIDENT TO MEET MID-TERM GOALS (1975-1985)

These actions are designed to meet the goal of achieving the capability for energy independence by 1985. The actions include measures to increase domestic energy production (including measures to cope with constraints and strike a balance between environmental and energy objectives), reduce energy demand, and prepare for any future emergency resulting from an embargo.

(A) Supply Actions

1. Naval Petroleum Reserve No. 4 (Legislative proposal) -- The President is asking the Congress to authorize the exploration, development and production of NPR-4 in Alaska to provide petroleum for the domestic economy, with 15-20% earmarked for military needs and strategic storage. The reserves in NPR-4 which are now largely unexplored could provide at least 2 million barrels of oil per day by 1985. Under the legislative proposal:

(a) The President would be authorized to explore, develop and produce NPR-4.

(b) The Government's share of production (approximately 15-20%) would be used to help finance the strategic storage system and to help fulfill military petroleum requirements. Any other receipts go to the United States Treasury as miscellaneous receipts.

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2. <u>OCS Leasing (Administrative)</u> -- The President reaffirmed his intention to continue an aggressive Outer Continental Shelf leasing policy, including lease sales in the Atlantic, Pacific, and Gulf of Alaska. Decisions on individual lease sales will await completion of appropriate environmental studies. Increased OCS leasing could add domestic production of 1.5 million barrels of oil and additional supplies of natural gas by 1985. There will be close cooperation with Coastal states in their planning for possible increased local development. Funding for environmental studies and assistance to States for planning has been increased in FY 1975.

3. <u>Reducing Domestic Energy Price Uncertainty (Legislative proposal)</u> -- Legislation will be requested authorizing and requiring the President to use tariffs, import quotas, import price floors, or other measures to achieve domestic energy price levels necessary to reach self-sufficiency goals. This legislation would enable the President to cope with possible large-scale fluctuations in world oil prices.

4. <u>Clean Air Act Amendments (Legislative proposal)</u> -- In addition to the amendments outlined earlier for short-term goals, the President is asking for other Clean Air Act amendments needed for a balance between environmental and energy goals. These include:

   (a) Legislative clarification to resolve problems resulting from court decisions with respect to significant air quality deterioration in areas already meeting health and welfare standards.

   (b) Extension of compliance dates through 1985 to implement a new policy regarding stack gas scrubbers -- to allow use of intermittent control systems in isolated power plants through 1985 and requiring other sources to achieve control as soon as possible.

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(c) A pause for 5 years (1977-1981 model years) for nationwide auto emission standards at the current California levels for hydrocarbons (0.9 grams per mile) and carbon monoxide (9 grams per mile), and at 1975 standards (3.1 grams per mile) for oxides of nitrogen (with the exception of California which has adopted the 2.0 standard). These standards for hydrocarbons (HC) and carbon monoxide (CO) are more stringent than now required nationwide for 1976 model year's cars. The change from the levels now required for 1977-1981 model years in the law will have no significant impact on air quality standards, yet they will facilitate attainment of the goal of 40% increase in auto fuel efficiency by the 1980 model year.

(d) EPA will shortly begin comprehensive hearings on emission controls and fuel economy which will provide more detailed data for Congressional consideration.

5. Surface Mining (Legislative proposal) -- The President is asking the Congress to pass a surface mining bill which strikes a balance between our desires for reclamation and environmental protection and our need to increase domestic coal production substantially over the next ten years. The proposed legislation will correct the problems which led to the President's veto of a surface mining bill last year.

6. Coal Leasing (Administrative) -- To assure rapid production from existing leases and to make new, low sulfur coal supplies available, the President directed the Secretary of the Interior to:

(a) Adopt legal diligence requirements to assure timely production from existing leases.

(b) Meet with Western Governors to explore regional questions on economic, environmental and social impacts associated with new Federal coal leases.

(c) Design a program of new coal leasing consistent with timely development and adequate return on public assets, if proper environmental safeguards can be provided.

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7. Electric Utilities -- The President is asking the Congress for legislation concerned with utilities. In recent months, 60% of planned nuclear capacity and 30% of non-nuclear capacity additions have been postponed or cancelled by electric utilities. Financing problems are worsening and State utility commission practices have not assured recovery of costs and adequate earnings. The transition from oil and gas-fired plants to coal and nuclear has been slowed greatly -- contributing to pressure for higher oil imports. Actions involve:

(a) Uniform Investment Tax Credit (Legislative) -- an increase in the investment tax credit to eliminate the gap between utilities and other industries -- currently a 4% rate applies to utilities and 7% to others.

(b) Higher Investment Tax Credit (Legislative) -- An increase in investment tax credit for all industry, including utilities, for 1 year -- to 12%. The 12% rate would be retained for two additional years for all power plants except oil and gas-fired facilities.

(c) Preferred Stock Dividend Deductions (Legislative) -- A change in tax laws applicable to all industries, including utilities, which allows deductions of preferred stock dividends for tax purposes to reduce the cost of capital and stimulate equity rather than debt financing.

(d) Mandated Reform of State Utility Commission Processes (Legislative) -- The legislation would selectively reform utility commission practices by: (1) setting a maximum limit of 5 months for rate or service proceedings; (2) requiring fuel adjustment pass-throughs, including taxes; (3) requiring that construction work in progress be included in a utility's rate base; (4) removing any rules prohibiting a utility from charging lower rates for electric power during off-peak hours and (5) allowing the cost of pollution control equipment to be included in the rate base.

(e) Energy Resources Council Study (Administrative) -- Review and report to the President on the entire regulatory process and financial situation relating to electric utilities and determine what further reforms or actions are needed. ERC will consult with State utility commissions, governors, public utilities and consumers.

8. Nuclear Power -- To accelerate the growth of nuclear power which supplies only one percent of our energy needs, the President is proposing, in addition to actions outlined above:

   (a) Expedited Licensing and Siting (Legislative) -- A Nuclear Facility Licensing Act to assure more rapid siting and licensing of nuclear plants.

   (b) 1976 Budget Increase (Legislative) -- An increase of $41 million in appropriations for nuclear safety, safeguards, and waste management.

9. Energy Facilities Siting (Legislative) -- Legislation would reduce energy facility siting bottlenecks and assure sites for needed facilities with proper land use considerations:

   (a) The legislation would require that states have a comprehensive and coordinated process for expeditious review and approval of energy facility applications; and state authorities which ensure that final State energy facility decisions cannot be nullified by actions of of local governments.

   (b) Provision for owners of eligible facilities or citizens to sue States for inaction.

   (c) Provide no Federal role in making case by case siting decisions for the States.

(B) Energy Conservation Actions

The President announced a number of energy conservation measures to reduce demand, including:

1. Auto Gasoline Mileage Increases (Administrative) -- The Secretary of Transportation has obtained written agreements with each of the major domestic automobile manufacturers which will yield a 40 percent improvement in fuel efficiency on a weighted

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average for all new autos by 1980 model year. These agreements are contingent upon relaxation of Clean Air Act auto emission standards. The agreement provides for interim goals, Federal monitoring and public reporting of progress.

2. Building Thermal Standards (Legislative) -- The President is asking Congress for legislation to establish national mandatory thermal (heating and cooling) efficiency standards for new homes and commercial buildings which would save the equivalent of over one-half million barrels of oil per day by 1985. Under this legislation:

(a) The Secretary of Housing and Urban Development shall consult with engineering, architectural, consumer, labor, industry, and government representatives to advise on development of efficiency standards.

(b) Thermal standards for one and two-family dwellings will be developed and implementation would begin within one year. New minimum performance standards for energy in commercial and residential buildings would be developed and implemented as soon thereafter as practicable.

(c) Standards would be implemented by State and local governments through local building codes.

(d) The President also directed the Secretary of Housing and Urban Development to include energy conservation standards in new mobile home construction and safety standards.

3. Residential Conservation Tax Credit -- The President is asking Congress for legislation to provide incentives to homeowners for making thermal efficiency improvements in existing homes. This measure, along with a stepped-up public information program, could save the equivalent of over 500,000 barrels per day by 1985. Under this legislation:

(a) A 15 percent tax credit retroactive to January 1, 1975 for the cost of certain improvements in thermal efficiency in residences would be provided. Tax credits would apply to the first $1,000 of expenditures and can be claimed during the next three years.

(b) Improvements such as storm windows, and insulation, would qualify for the tax credit.

4. Low-Income Energy Conservation Program (Legislative) -- The President is proposing legislation to establish a Low-Income Energy Conservation Program to offer direct subsidies to low-income and elderly homeowners for certain energy conservation improvements such as insulation. The program is modeled upon a successful pilot program in Maine.

   (a) The program would be administered by FEA, under new legislation, and the President is requesting supplemental appropriations in 1975 and $55 million in fiscal year 1976.

   (b) Acting through the States, Federal funds would be provided to purchase materials. Volunteers or community groups could install the materials.

5. Appliance Efficiency Standards (Administrative) -- The President directed the Energy Resources Council to develop energy efficiency goals for major appliances and to obtain agreements within six months from the major manufacturers of these appliances to comply with the goals. The goal is a 20% average improvement by 1980 for all major appliances, including air conditioners, refrigerators and other home appliances. Achievement of these goals would save the equivalent of over one-half million barrels of oil per day by 1985. If agreement cannot be reached, the President will submit legislation to establish mandatory appliance efficiency standards.

6. Appliance and Auto Efficiency Labelling Act (Legislative) -- The President will ask the Congress to enact a mandatory labelling bill to require that energy efficiency labels be placed on new appliances and autos.

(C) Emergency Preparedness

The President announced that comprehensive energy emergency legislation will be proposed, encompassing two major components.

1. Strategic Petroleum Storage (Legislative) -- Development of an energy storage system of one billion barrels for domestic use and 300 million barrels for military use. The legislation will

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authorize the government to purchase and prepare the storage facilities (salt domes or steel tanks), while complex institutional questions are resolved and before oil for storage is actually purchased. FEA will develop the overall program in cooperation with the Department of the Interior and the Department of Defense. All engineering, planning, and environmental studies would be completed within one year. The 1.3 billion barrels will not be complete for some years, since time is required to purchase, prepare, and fill the facilities.

2. <u>Standby and Planning Authorities</u> (<u>Legislative</u>) -- The President is requesting a set of emergency standby authorities to be used to deal with any significant future energy shortages. These authorities would also enable the United States to fully implement the agreement on an International Energy Program between the United States and other nations signed on November 18, 1974. This legislation would include the authority to:

(a) Implement energy conservation plans to reduce demand for energy;

(b) allocate petroleum products and establish price controls for allocated products;

(c) ration fuels among end users;

(d) allocate materials needed for energy production where such materials may be in short supply;

(e) increase production of domestic oil; and

(f) regulate petroleum inventories.

III. <u>ACTIONS ANNOUNCED BY THE PRESIDENT TO MEET LONG-TERM GOALS</u> (<u>BEYOND 1985</u>)

The expanded research and development program on which the nation is embarked will provide the basis for increasing domestic energy supplies and maintaining energy independence. It will also make it possible in the long run for the U.S. to export energy supplies and technology to others in the free world. Important elements are:

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(OVER)

(A) Synthetic Fuels Program (Administrative) -- The President announced a National Synthetic Fuels Commercialization Program to ensure at least one million barrels per day equivalent of synthetic fuels capacity by 1985, using technologies now nearing commercial application.

1. Synthetic fuel types to be considered will include synthetic crude from oil shale and a wide range of clean solid, liquid, and gaseous fuels derived from coal.

2. The Program would entail Federal incentives (possibly including price guarantees, purchase agreements, capital subsidies, leasing programs, etc.), granted competitively, and would be aimed at the production of selected types of gaseous and liquid fuels from both coal and oil shale.

3. The program will rely on existing legislative authorities, including those contained in the Federal Non-Nuclear Energy Research and Development Act of 1974, but new legislative authorities will be requested if necessary.

(B) Energy Research and Development Program -- In the current fiscal year, the Federal Government has greatly increased its funding for energy research and development programs. These Federal programs are a part of a much larger national energy R & D effort and are carried out in cooperation with industry, colleges and universities and others. The President stated that his 1976 Budget will continue to emphasize these accelerated programs which include research and the development of technology for energy conservation and on all forms of energy including fossil fuels, nuclear fission and fusion, solar and geothermal.

(C) Energy Research and Development Administration -- (ERDA) The President has signed an Executive Order which activates, effective January 19, 1975, the Energy Research and Development Administration. ERDA will bring together in a single agency the major Federal energy R & D programs which will have the responsibility for leading the national effort to develop technology to assure that the U.S. will have an ample and secure supply of energy at reasonable prices. ERDA consolidates major R & D functions previously handled by the AEC, Department of the Interior, National Science Foundation and Environmental Protection Agency. ERDA will also continue the basic research, nuclear materials production and weapons programs of the AEC.

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IMPACTS OF NEAR AND MID-TERM ACTIONS ON PETROLEUM CONSUMPTION AND IMPORTS

NEAR TERM PROGRAM (MMB/D)

	1975	1977
CONSUMPTION IF NO NEW ACTIONS	18.0	18.3
IMPORTS IF NO NEW ACTIONS	6.5	8.0
	IMPORT SAVINGS	
Less Service Savings by Short-term Actions:	1975	1977
Production from Elk Hills	0.2	0.3
Coal Conversion	0.1	0.3
Tax Package	0.9	1.6
TOTAL IMPORT SAVINGS	1.2	2.2
REMAINING IMPORTS	5.3	5.8

MID-TERM PROGRAM

CONSUMPTION IF NO NEW ACTIONS	23.9 MMB/D	
IMPORTS IF NO NEW ACTIONS	12.7 MMB/D	
Less Savings Achieved by Following Actions:	1985 IMPACT ON IMPORTS	
OCS Leasing	1.5	
NPR-4 Development	2.0	
Coal Conversion	0.4	
Synthetic Fuel Commercialization	0.3	
Auto Efficiency Standards	1.0	
Continuation of Taxes	2.1	
Appliance Efficiency Goals	0.1	
Insulation Tax Credit	0.3	
Thermal Standards	0.3	
Total Import Savings by Actions		8.0
Remaining Imports		4.7
Less:		
Emergency Storage	3.0	
Standby Authorities	1.7	
NET IMPORT VULNERABILITY		0

INTERNATIONAL ENERGY POLICY AND FINANCING ARRANGEMENTS

BACKGROUND

The cartel created by the Organization of Petroleum Exporting Countries (OPEC) has successfully increased their governments' price for exports of oil from approximately $2 per barrel in mid-1973 to $10 per barrel today. Even after paying for their own increased imports, OPEC nations will report a surplus of over $60 billion in 1974, which must be invested. Oil price increases have created serious problems for the world economy. Inflation pressures have been intensified. Domestic economies have been disrupted. Consuming nations have been reluctant to borrow to finance their oil purchases because of current balance of payments risks and the burden of future interest costs and the repayment of massive debts. International economic relations have been distorted by the large flows of capital and uncertainties about the future.

U.S. POSITION

The United States believes that the increased price of oil is the major international economic problem and has proposed a comprehensive program for reducing the current exorbitant price. Oil importing nations must cooperate to reduce consumption and accelerate the development of new sources of energy in order to create the economic conditions for a lower oil price. However, until the price of oil does decline, international stability must be protected by financing facilities to assure oil importing nations that financing will be available on reasonable terms to pay for their oil imports. The United States is active in developing these financing programs. Once a cooperative program for energy conservation and resource development and the interim financing arrangements are agreed upon, it will be possible to have constructive meetings with the oil producers.

ACTIONS TAKEN BY OIL CONSUMING NATIONS

The oil consuming nations have already created the International Energy Agency to coordinate conservation and resource development programs and policies for reacting to any future interruption of oil exports by producing nations. The four major elements of this cooperative program are:

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An emergency sharing arrangement to immediately reduce member vulnerability to actual or threatened embargoes by producers.

A long-term cooperative program to reduce member nation dependence on imported oil,

A comprehensive information system designed to improve our knowledge about the world oil market and to provide a basis for consultations among members and individual companies; and

A framework for coordinating relations with producing nations and other less developed consuming countries.

The International Energy Agency has been established as an autonomous organization under the OECD. It is open to all OECD nations willing and able to meet the obligations created by the program. This international agreement establishes a number of conservation and energy resources development goals but each member is left free to determine what domestic measures to use in achieving the targets. This flexibility enables the United States to coordinate our national and international energy goals.

OTHER U.S. ACTIONS AND PROPOSALS

The United States has also supported programs for protecting international stability against distorting financial flows created by the sudden increase of oil prices. Although the massive surplus of export earnings accumulated by the producing nations will have to be invested in the oil consuming nations, it is unlikely that these investments will be distributed so as to match exactly the financing needs of individual importing nations. Fortunately the existing complex of private and official financial institutions has, in the case of the industrialized countries, been effective in redistributing the massive oil export earnings to date. However, there is concern that some individual industrialized nations may not be able to continue to obtain needed funds at reasonable interest rates and terms during the transition period until supplies are increased, conservation efforts reduce oil imports and the price of oil declines. Therefore, the United States has supported various proposals for "reshuffling" the recycled funds among oil consuming nations, including:

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(OVER)

Modification of International Monetary Fund (IMF) rules to permit more extensive use of existing IMF resources without further delay;

Creation of a financial solidarity facility as a "safety net" for participating OECD countries that are prepared to cooperate in an effort to increase conservation and energy resource development actions to create pressure to reduce the present price of oil;

Establishment of a special trust fund managed by the IMF which would extend balance of payments assistance to the most seriously affected developing nations on a concessional basis not now possible under IMF rules. The United States hopes that oil exporting nations might contribute a major share of the trust fund and that additional resources might be provided through the sale of a small portion of the IMF's gold holdings in which the differential between the original cost of the gold and the current market price would be added to the trust fund; and

An increase in IMF quotas which would make more resources available in 1976.

These proposals will be discussed at ministerial level meetings of the Group of Ten, the IMF Interim Committee and the International Monetary Fund/International Bank for Reconstruction and Development Committee in Washington, D.C. January 14 to 17.

In these meetings, the United States will continue to press its views concerning the fundamental importance of international cooperation to achieve necessary conservation and energy resources development goals as a basis for protecting our national security and underlying economic strength.

# # #

GPO 882-978

EMBARGO FOR RELEASE UNTIL
1:00 pm, January 15, 1975

OUTLINE OF ENERGY QUESTIONS AND ANSWERS

BACKGROUND

- Data History and Forecasts

NEAR-TERM ACTIONS

- Import Fee, Tax and Decontrol
- Naval Petroleum Reserve

MID-TERM PROGRAM

- Outer Continental Shelf Production
- Domestic Price Uncertainty
- Clean Air Act Amendments
- Strip Mining Legislation
- Coal Leasing and Prices
- Electric Utilities
- Energy Facility Siting
- Energy Conservation

EMERGENCY PLANNING MEASURES

- Emergency Storage
- Standby Authority

LONG-TERM ACTIONS

- Research and Development

ECONOMIC IMPACT

INTERNATIONAL

GENERAL

BACKGROUND

DATA HISTORY AND FORECASTS

Q. Has demand for petroleum products increased since the embargo?

A. Domestic consumption of energy is now beginning to increase again and is estimated to keep growing, although at a slower rate than prior to the embargo. The latest figures show total domestic demand to be at 18.2 million barrels per day (MMB/D) as compared to 17.7 MMB/D at the close of 1973. Gasoline consumption dropped 3.4 percent during the first 9 months of 1974 (as compared to 1973), but has increased since September bu about 300,000 barrels per day.

Q. What about production and import levels?

A. Domestic oil procuction continues to decline as older fields have reached their peak. During the first eleven months of 1974, domestic production averaged 8.8 MMB/D as compared to 9.2 MMB/D in 1973. As a result, imports continue to rise even with present high prices. We are now importing 7.3 MMB/D (average of 6.8 MMB/D in last quarter of 1974), as compared to 6.5 MMB/D in October, 1973, the month prior to the embargo.

Q. What about coal production?

A. Coal (approximately 20 percent of domestic energy production) was the only major energy source that showed increased output during the first three quarters of 1974. Coal production in October was 5 percent above its level for the same period in 1973. However, the strike in November interrupted coal output and the industry has not yet regained former production levels.

Q. Do you foresee any shortages in the next 6 months?

A. We do not expect shortages of petroleum products but we do project large shortages for natural gas, as high as 14%. The greatest impact will be felt by electric utilities and industries that receive natural gas on an interruptible contract basis. These curtailments of natural gas have already had a serious impact on employment.

Q. How high are current inventories?

A. FEA figures indicate that December, 1974 crude oil stocks were about 20 million barrels higher (this is an adjusted figure to account for disparities between the American Petroleum Institute and FEA reporting methods) than the same period of 1973. Similarly, stocks for refined petroleum products were higher in December 1974 than the corresponding month in 1973 due to reduced demand and increased imports. Coal stocks, however, are down as a result of the recent UMW strike.

NEAR-TERM ACTIONS

IMPORT FEE, TAX AND DECONTROL

Q. Will the fee on imports create additional profits for the oil companies?

A. No, the import fee, by itself, will not increase industry profits. However, the fee will place an upward pressure on the price for crude. Since the price for uncontrolled domestic crude will rise to meet the world price, industry profits will also rise. This is why we are calling for a windfall profits tax as part of the energy proposals. It will be retroactive to collect any profits caused by Administrative actions.

Q. Won't certain areas of the country which are heavily dependent on crude oil or product imports suffer a disproportionate burden as a result of the tariff?

A. No. The FEA is currently administering a program which substantially equalizes the cost of crude oil to all domestic refiners. This crude equalization program aids refiners with high crude costs at the expense of other refiners which have access to price-controlled domestic crude. Further, the product fees will be less than crude fees; there will be a $3 fee on crude and a $1.20 fee on refined products in April.

Q. How does a tax or fee achieve our national energy goals?

A. As a result of these measures, petroleum products will become more expensive relative to other goods and services, thereby encouraging conservation and discouraging consumption. Also, making imports more expensive than domestic supplies of petroleum encourages the production of domestic crude oil.

Q. Will the fee help to lower world crude prices and protect us from another embargo?

A. The fee program will help to reduce our imports of foreign oil by reducing our overall demand. As a result, we will have less demand for products from some OPEC nations. To this extent, it may affect some prices being charged by certain OPEC nations. But overall, the fee will have a minimal effect on lowering world crude prices in the immediate future.

Q. Why didn't you tighten the mandatory allocation program which you already have authority to administer rather than raising prices? Why not rationing?

A. The mandatory allocation program was designed in response to an emergency situation, and does not address the more basic economic issues. A tighter mandatory allocation program could necessitate a significant increase in the Federal bureaucracy and could mean a return to the long gasoline lines we experienced last winter. Additionally, rationing and price control programs are inevitably discriminatory against those who would enter the market and provide competition.

While the Administration's program, which relies on the market forces, is more effective, the President announced his intention to guarantee reaching the goals by using his authority to limit imports if necessary.

Q. How much more expensive will gasoline and other products be?

A. On the average, if costs of a crude import $3 fee are spread evenly among all products, prices of gasoline and other petroleum products refined from the higher priced imported crude could rise as much as 5 cents per gallon (controlled domestic oil will stay at the same price).

The total tax package and decontrol would ultimately add about $4 a barrel (10 cents per gallon) to the average costs of all products.

Q. What are the limits to the President's power to institute a fee?

A. The President may impose a fee in response to a national security finding and should be established at that amount sufficient to offset the threat to national security.

Q. What additional actions are you asking from Congress?

A. In conjunction with the establishment of the fee, we are asking Congress for an excise tax on domestic crude oil (and will maintain a fee on all imports), the decontrol of old crude oil, deregulation of new natural gas, windfall profits tax, and a natural gas excise tax.

Q. What are the differences between a tax, a fee and a tariff?

A. All three are charges which can be used to produce revenue and all three have the effect of reducing demand. The differences lie in the source of authority to levy the charge. A tax must be levied by Congress for the purpose of raising domestic revenue. A tariff is a charge against imports and must also be authorized by the Congress. A fee is also levied on imported material but may be set for non-revenue purposes and need not be legislated.

Q. How much oil will the combined tax/fee program save?

A. The overall tax-package will save an estimated 1.6 MMB/D in 1977 and about 1.0 MMB/D in 1975.

Q. Will there be rationing?

A. No, not unless another emergency embargo situation necessitates it.

Q. Why not?

A. Rationing will not solve our long-term problems and will create severe energy disruptions in life-styles and would require a large bureaucracy to administer.

Q. Wouldn't it be better to reduce demand by imposing import quotas instead of raising prices through a fee?

A. No, it would not. Import quotas can cause disparities in the marketplace by mandating specific, allowable levels of products into the country. By raising prices via a fee, the individual consumer can determine in what areas to conserve. While we are not considering the use of import quotas at this time, we will submit legislation requesting the authority to use tariffs, import quotas or other measures to achieve energy price levels necessary to reach our goals. The Message stated that Presidential power to limit oil imports would be used if necessary.

Q. What is the effect of decontrolling domestic old oil?

A. Prices on the domestic market will rise to meet world oil prices, and oil industry profits will also rise. This is why we must have immediate enactment of a windfall profits tax - to preclude this from happening.

Q. Why are you requesting the deregulation of natural gas prices?

A. I want to let the free market work to the maximum extent possible. The deregulation of natural gas prices will greatly encourage higher production levels in the long run. As you know, we are currently faced with a natural gas shortage of 14 percent for this winter. In the short run, higher prices will serve to lessen demand and will therefore mitigate the severity of this projected shortage.

Q. Isn't the ultimate effect of this action going to be increased prices to the consumer?

A. Yes, this will be the effect. We estimate that the typical monthly natural gas bill to the consumer would increase by about $8 by 1985. The alternative to deregulation is less natural gas and higher costs for other fuels, such as petroleum and electricity.

Q. How much will natural gas prices rise in the next few years?

A. We estimate that, as a result of deregulation, the average natural gas prices will rise from 31¢/mcf in the interstate market in 1974, to 35¢/mcf in 1975; 38¢/mcf in 1976; and 41¢/mcf in 1977. The average national natural gas price will be higher, because intrastate gas is not controlled.

The estimated market clearing price for natural gas is 99¢/mcf, and would be reached by 1985.

Q. Why are you placing an excise tax on domestic natural gas?

A. The excise tax on natural gas will approximate the excise tax and import fees on oil on a Btu equivalency basis. It will also inhibit preference for natural gas over oil. This tax will reduce the curtailment problem and lessen negative employment effects.

Q. How much will the production of old oil be stimulated by price decontrol?

A. We estimate that price decontrol could result in an additional 1-2 MMB/D of crude oil production in the next 3-4 years.

Q. What are the advantages of an import fee over a gasoline tax?

A. An import fee covers all crude and product imports and spreads the effects of demand reduction more evenly than a gas tax. The gasoline tax would have to be very large to save an equivalent amount of oil -- at least 30¢ per gallon -- and it would severely affect the already depressed automobile industry and numerous related industries.

Q. Why doesn't the Administration provide priority treatment in domestic production of crude oil relative to the levying of tariffs and excise taxes? For example, the fee on imported crude could be $2.00 per barrel, whereas, the domestic excise tax would be at $1.50. Won't such action encourage domestic exploration as a result of an additional financial incentive?

A. The immediate import fees will raise the prices of imports relative to domestic production. In the long-run, and at the margin, decontrolled domestic crude would rise to the same selling price as foreign crude, and any differential in taxes would probably only result in additional profits. Further, decontrol of old oil and higher prices should provide sufficient incentives to produce.

NAVAL PETROLEUM RESERVES

Q. What is your specific proposal with regard to the Naval Petroleum Reserves?

A. There are two proposals involved. We have asked Congress to permit production of the Elk Hills, California, Naval Petroleum Reserve (NPR-1) under Navy control and are submitting legislation to the Congress to authorize the exploration, development and production of NPR-4 in Alaska. The oil produced from NPR-1 would be used to top off all Defense Department storage tanks with the remainder to be sold at auction or exchanged for refined petroleum products used by the Department of Defense. The production from NPR-4 would provide petroleum for the domestic economy as well as for defense needs.

Q. Who will have Government authority for developing NPR #1?

A. I have asked the Congress to permit production of the Elk Hills Naval Petroleum Reserve under Navy control.

Q. How quickly can NPR-1 and NPR-4 be brought onstream?

A. NPR-1 can produce 160,000 barrels per day within a few months and 300,000 barrels per day by 1977. NPR-4 will take longer to produce as exploration and development must first take place.

Q. Can we use the Trans-Alaska Pipeline to move NPR-4 oil?

A. No. North Slope oil production will fill the capacity of the Trans-Alaska Pipeline and thus new transportation facilities will be needed for NPR-4.

Q. What is the time frame and cost involved in retrieving oil and gas from NPR-4 in Alaska?

A. The development of NPR-4 will require several years and production is not expected before 1982 at the earliest. The cost would be more than $400 million if exploration is done by the Government. If any part of NPR-4 is leased commercially, revenues could more than offset costs. It is estimated that about two million barrels per day can be produced in NPR-4.

MID-TERM PROGRAM

OUTER CONTINENTAL SHELF PRODUCTION

Q. How do you know there are sufficient quantities of oil and gas in the Outer Continental Shelf to make its development worthwhile?

A. We don't know for sure that there are sufficient quantities for development although geological formations indicate that there may be. We are reaffirming our intention to continue an aggressive exploration and development policy.

Q. What will be done to insure that the environmental impacts of oil and gas development in the OCS and other frontier areas will be kept to safe levels?

A. We already have an extensive body of law designed to protect these areas from unacceptable levels of environmental damage and a whole new level of technology (environmental monitoring protection) has been developed in response to these new laws. In the field of oil and gas development technical procedures and equipment are now in use designed to prevent oil spills and to minimize and control them once they occur. In addition the development of environmental baselines and the requirement to monitor the sites under development insures that any adverse effects will be detected early to allow proper and effective counteraction.

The Council on Environmental Quality conducted an extensive study of oil and gas exploration in the offshore areas of the U.S. and concluded that with proper safeguards, these areas can be safely developed. The Department of the Interior has now adopted literally all of the recommendations of the CEQ report.

In addition, new funds are being requested for coastal zone management to investigate and develop further the additional safeguards needed to protect our environment. Of course, before any leasing of frontier areas is done, there will be extensive public hearings and environmental impact statements to advise the public of the safeguards being taken.

DOMESTIC PRICE UNCERTAINTY

Q. How would you determine when our vulnerability to pressure from oil exporting countries is high enough to make a price floor or other measure desirable?

A. Our vulnerability becomes unacceptable when our expected level of imports could not be completely replaced by emergency storage and standby actions. If the price of imported oil declines considerably, demand for oil would increase and import levels would get much higher.

Q. What is the difference between a quota and a price floor on imports?

A. A quota is designed to restrict the actual amount of imports into the country while a price floor sets a minimum price for imports so that domestic fuels will remain economically competitive with foreign sources.

Q. Wouldn't price floors maintain oil prices you have claimed are exorbitant?

A. We would have no intention of setting a floor price at current world oil price levels ($11-12 per barrel). Rather, price floors could conceivably be set at a significantly lower level and still keep traditional domestic sources economic.

<u>CLEAN AIR ACT AMENDMENTS</u>

Q. Will the Clean Fuels Deficit be eliminated by your proposed energy actions?

A. Yes. The Clean Fuels Deficit is a term used to describe the potential shortage of low sulfur coal needed to meet emission limitations in 1975 and beyond. This shortage of low sulfur coal was at one point estimated to be as high as 200 million tons by mid-1975. The alternatives to these actions would be to curtail coal burning, thereby curtailing electric energy generation, or to import low sulfur oil to fill the low sulfur coal gaps, thereby increasing our oil imports. The actions I propose include voluntary revision of State emission limitations, implementation of supplementary control systems and extensions of compliance deadlines to eliminate this problem.

Q. By relaxing auto emission requirements, aren't you letting the auto industry off the hook and at the same time lowering the quality of our air?

A. No. We are actually moving to a tougher standard than now in force. I would like to emphasize that compliance with the legislative standards will still be required and cleaner air will thus be achieved. The interim standards set carbon monoxide and hydrocarbon emissions at the current California levels (9.0 grams and .9 grams per mile respectively) and NO_x emissions at 3.1 grams per mile for all States except California, where 2.0 grams per mile will still be required. Thus, the quality of our air will not be significantly impaired nor will we be retreating to the uncontrolled emission levels allowed before the passage of the Clean Air Act.

The proposal to extend the time required to comply with the original 1977 auto emission standards is based on the need to balance fuel conservation with the Clean Air Act requirements; simply proceeding with the present schedule for emission controls would have involved the additional consumption of 1 1/2 to 5 1/2 billion gallons of gasoline per year by 1980. By extending the time required to comply with the final emission limitations we achieve fuel conservation in the form of a 40 percent fuel efficiency improvement.

Q. What are your plans for stack gas scrubbers?

A. Certainly some types of scrubbers have not reached the level of effectiveness that other designs have reached. However, scrubbers will play an important role in our future expanded use of coal. By 1985, we expect that all plants which need scrubbers will have them.

Q. Won't the Clean Air Act (CAA) and the Energy Supply and Environmental Coordination Act (ESECA) Amendments which you are proposing mean a retreat from our present efforts to clean the nation's air?

A. No, it will not. There will be a delay in achieving certain standards but the commitment remains firm.

The purpose of these proposed amendments is to facilita[te] the use of coal thereby reducing our dependence on imported oil and to resolve the clean fuels shortage created by the unavailability of low sulfur coal and stack gas scrubbers. In no way are they intended to trade off our environmental needs for some quick energy solutions.

Q. How will your plan to convert electric utilities from oil to coal affect air quality?

A. There may be an absolute increase in air pollution as a result of converting from oil to coal but the burning of coal itself will not adversely affect air quality since all coal conversion candidates will have to develop plans for complying with primary air quality standards. These plans must be approved by the Environmental Protection Agency before conversion orders may be placed in effect. In certain instances, an oil burning facility required to convert to coal may have difficulty obtaining the necessary low sulfur coal or pollution control equipment. Such facilities will not be converted unless they can comply with ambient air quality standards which protect health.

Q. It has been reported that the delays you propose in auto emission requirements represent a deal with Detroit to gain your 40% fuel efficiency goal -- is this true?

A. No, there is no deal involved. But this action is a recognition of the technical limitations that now exist in trying to meet both the auto emission requirements as they presently exist and the 40% increased fuel efficiency goal. By allowing for the delay we are providing for a more gradual and less disruptive development of emission control equipment while at the same time achieving a 40% increase in fuel efficiency.

STRIP MINING LEGISLATION

Q. How will your proposed strip mining bill differ from the proposed bill which Congress developed and you vetoed?

A. On December 30, 1974, I gave my objections to the strip mining bill proposed by Congress. The Congressional bill would have resulted in a reduction in coal production, and also contained too many vague and unclear requirements that could have led to an extensive litigation between the Federal Government and various private interest groups. The bill I will propose will be similar in many respects to the bill developed by Congress but amended to minimize these objections.

COAL LEASING AND PRICES

Q. Why do we need increased coal leasing in the United States?

A. In order for the nation to meet the goals I have announced, we must act quickly to remove constraints and provide new incentives for domestic production. We must focus our production capability on coal as it is our most abundant domestic resource. The Federal Government owns over 200 billion tons of coal reserves, but only 6 billion tons are currently scheduled to support production by 1980. Thus, we should move ahead to design a new program of coal leasing and should speed up production from these leases, providing the environmental impact of these actions is acceptable.

Q. What was the effect of the United Mine Workers strike on coal prices?

A. Coal prices rose substantially on the spot market in anticipation of and during the UMW strike. The cost of the new UMW contract will add approximately $2-3 to the price of a ton of coal in 3 years. Other factors continue to exert upward pressure on coal prices, the most notable of which is the return to the use of less expensive coal in place of higher priced oil by electric utilities.

Q. Even though the reserves are there, can the coal industry produce as much coal as we need in the short term?

A. If we eliminate the uncertainties surrounding coal production, we can substantially close the gap between coal supply and demand. The program I have outlined addresses all these uncertainties (stripmining legislation, coal leasing, Clean Air Act implementation, oil import policy, natural gas pricing policy and electricity demand) and should serve to assure an increased production of coal. We may not, however, be able to assure that coal production meets our demands in the very near future due to the current high oil prices and the shortage of natural gas which heightens coal use. Increased coal production is also constrained by manpower and equipment shortages in the short term.

ELECTRIC UTILITIES

Q. What legislative changes are you proposing for electric utility rate structures?

A. The legislation we are proposing will require state regulatory authorities to permit the utilities under their jurisdiction to generate sufficient revenues to cover costs during a period of rapid inflation and heavy capital expansion requirements.

Three of the provisions, including the cost of construction work in progress in the rate base mandating fuel adjustment pass-throughs, and setting a 5 month maximum processing time for regulatory hearings, would require all authorities to adopt procedures that are now being used in many jurisdictions.

The off-peak pricing proposal would prevent authorities from limiting electric utilities in their efforts to increase revenues by selling more power during slack demand periods.

Q. You said you would take further actions to aid electric utilities if necessary. What actions do you anticipate?

A. At this time, more than 60 percent of all planned nuclear plants have been delayed or cancelled. The Energy Resources Council will be working with the utilities and, if warranted, we will propose additional measures to get these plants going again.

Q. Many of these proposals will lead to increases in utility rates. How large will these increases be?

A. The inclusion of Construction Work in Progress in the rate base would add about 11 percent a year to prices and the limitation on rate decision delay would add about 5 percent next year, and probably less thereafter. The other proposals would add 1 to 2 percent to rates. In all, for the first full year in which the charges would take effect, the additional increase would be almost 20 percent.

Q. Why are you proposing rate increases in a time of double-digit inflation?

A. The increases in cost of electricity must be paid either directly by consumers, or indirectly through Government subsidy. Direct increases will cut back demand and reduce the overall increase required. A Government subsidy, on the other hand, means that everybody pays, whether they use more or less. Therefore, price increases for electricity will assure that those who use more, pay more.

Q. I'm using less electricity but paying more. Why?

A. Under last year's unusual circumstances (unprecedented oil price increases) the average per unit cost of electricity to industry rose 55 percent and 20 percent to residential consumers. This increase was so large that it offset most efforts to cut consumption. Rates should not increase as fast this year.

Q. Isn't the electric utility industry already making record profits?

A. Profits did increase through 1973. However, in 1974, they began to decline. For the first three quarters of 1974, aggregate profits for the utility industry declined by about 7 percent from those of the equivalent period of 1973. The critical issue, however, is that investor-owned electric utilities are now earning less than three times their total interest charges. A number of utilities are only barely meeting statutory requirements for interest coverage.

Q. How do you intend to monitor what electric utilities pay for fuel to make sure they are trying to be as cost-conscious as possible?

A. Our proposal calls for the appropriate local regulatory authority to allow a justified fuel pass-through. It will continue to be the function of that authority to oversee these regulations.

Q. If investor-owned utilities are unable to remain solvent without Federal intervention, why aren't you proposing public ownership at the State/municipal level or nationalization?

A. Public ownership as a solution implies that such ownership can solve the problem more cheaply. However, there is no consensus that publicly owned power is cheaper than privately owned power in the United States, except to the extent that it receives subsidization through cheaper capital and lower taxes. Such subsidy would tend to stimulate consumption relative to private ownership, and would be more expensive in the long run.

Q. Aren't you suggesting an infringement of states' rights? Isn't this unconstitutional?

A. While regulation of utility rates has traditionally been under State jurisdiction, the interest of the country as a whole is at stake. Specifically, the Interstate Commerce Clause gives the Federal Government the authority to regulate activities that affect interstate commerce - and it has been determined that consumption of electricity does affect interstate commerce. Most of these proposals are not new and already exist in many states. What we propose will establish uniformity across the nation resulting in more equitable treatment of all public utilities.

ENERGY FACILITY SITING

Q. What will the role of the States be in energy facility siting?

A. Under the proposed facilities siting legislation, States will be required to develop and submit comprehensive management plans to the FEA for the siting and construction of needed energy facilities within their boundaries. Each management plan will have to be approved by the FEA before State implementation may begin.

Q. What if FEA does not approve a plan?

A. If a State fails to formulate an acceptable plan, the FEA Administrator may promulgate an energy facility management program for the State to administer.

Q. Can a State veto an FEA promulgated plan?

A. No.

Q. Will the bill authorize FEA to overturn a State decision on a particular site application?

A. No. If a State fails to comply with the plans requirements in a particular case, the applicant may seek relief in the courts.

ENERGY CONSERVATION

Q. Are the specific conservation measures you've proposed tough enough to provide the petroleum demand reduction necessary to achieve the import goal in 1977?

A. Yes, they are. We are setting a goal to reduce imports by 2 MMB/D by the end of 1977. The savings from increased taxes and import fees amounts to 1.6 MMB/D while coal conversion will bring an 0.3 MMB/D oil saving. The development of Elk Hills Naval Petroleum Reserve will allow us to cut another 0.3 MMB/D from our import needs and additional conservation programs (public information, auto efficiency standards, thermal standards, voluntary appliance standards) will save even more.

Q. Why do we need long term conservation measures if, according to the Project Independence Report, accelerated development of our supplies alone will lead us to energy independence in 1985 if oil prices stay at $11 per barrel?

A. We need long term conservation goals specifically because we do not expect that the future price of world oil will be $11 and we do not want prices that high. Since the world price may drop considerably below $11 per barrel, we must make sure that the resulting increased demand will not increase our imports. We also need to stop using energy wastefully and to preserve our limited oil resources as much as possible.

Q. Will the conservation program you proposed result in attainment of the goal of one million barrels per day savings in imports for 1975 that you established in your energy message to Congress in October, 1974?

A. Yes. If it is all carried out -- higher prices resulting from the tariff and excise taxes, combined with the comparatively smaller immediate effects of specific conservation measures, such as the expanded conservation education program, the development of the Elk Hills Naval Petroleum Reserve, and coal conversion should provide us with at least one million barrels per day savings in projected imports by the fourth quarter of 1975.

However, attainment of this very near term goal is not enough. Our attention must turn to the far tougher goals of reducing our vulnerability to foreign supply curtailments through 1977, and eliminating it by 1985.

Q. If energy efficiency improvements in the home effectively reduce fuel costs, why is a tax credit needed for thermal improvements?

A. More and more Americans are highly mobile and do not remain in the same house for long periods of time. Because of this factor, and because it may take a few years to make thermal insulation pay off economically, a tax credit will encourage homeowners to insulate now regardless of how long they reside in the same house.

Secondly, because the economics of insulation do not pay off quickly, homeowners will have to pay higher first costs. In this period of recession many will find it difficult to pay higher first costs and a tax credit will help.

Q. Has the 55 m.p.h. speed limit been effective?

A. Yes. Lower speed limits are directly attributable to lower death rates on our highways and is a factor in reduced gasoline consumption. As you know, the President just signed into law a bill making the 55 m.p.h. speed limit a national mandatory limit for interstate highways and urges all State Governors to vigorously enforce this limit.

Q. What steps are you taking to assure that conservation goals are met by industry?

A. Members of the Administration have been meeting with industrial leaders on a regular basis to work out programs of industrial conservation. We are receiving commitments from these industries to conserve more energy and I am confident that industry is prepared to conserve as much as possible. If savings are not achieved by voluntary means, however, mandatory measures will be considered.

Q. Will the mandatory thermal standards delay recovery for the construction industry anticipated during the second half of 1975?

A. Since the mandatory thermal standards proposed will take six months to formulate, and subsequently will be implemented in a phased program over three years, this conservation action should have no impact on the recovery of construction expected during 1975.

Q. Why did you decide against mandatory appliance standards?

A. As in the case of automobile efficiency standards, before the Government should intervene in the marketplace, industry should be provided an opportunity to demonstrate that it can act responsibly and responsive to the higher value on energy. For this reason, we have allowed a short period for industry to voluntarily institute measures to increase energy efficiency in appliances and have asked the Energy Resources Council to work with industry to establish the voluntary standards.

Q. Why haven't you initiated any new public transportation programs?

A. We are already doing a number of things to stimulate use of mass transit, including a rapid increase in funds for its development. Additional actions have not been taken because they would only result in small additional savings of energy.

Q. Do you think your total energy program places as much emphasis on conservation as it does on resource development?

A. Yes. The program being proposed is a tough mandatory energy conservation program and relies heavily on conservation to reduce imports in the short-term.

EMERGENCY PLANNING MEASURES

EMERGENCY STORAGE

Q. What kind of specific authority are you requesting with regard to emergency storage?

A. We are requesting authority to create and maintain a strategic reserve capacity of more than 1 billion barrels of petroleum and petroleum products and the authority to determine under what circumstances and to what extent those reserves should be used during emergency situations. This is sufficient to provide 3 million barrels of oil per day for a full year.

Q. What is the benefit of a storage program to safeguard against an embargo if it won't be operational until 1980?

A. While it is true that a storage program won't be fully operational before 1980, it will provide some protection between now and then as stocks are gradually accumulated. Further, we will need the protection provided by a storage program after 1980, as the nation will continue to be dependent upon foreign imports to meet some portion of its energy needs. During this interim period, we will continue our efforts toward stringent conservation by all consuming nations.

Q. How will the program be financed and will the ownership be public or private?

A. We have not firmly established yet how the program will be financed or who will own the storage facilities. These questions will be fully explored later in the planning and engineering stage.

Q. What products will be stored - crude as well as refined products?

A. We currently anticipate that we will store predominantly crude oil, although there will probably be some storage of petroleum products, mainly for the needs of the Northeastern part of our country. The specific amounts of each type of storage will be determined in the planning stages.

Q. Why would oil be stored in salt domes located in the Gulf Coast, when other regions are heavily import dependent?

A. Suitable salt domes provide inexpensive storage facilities and are located near crude oil distribution centers, refineries, and transportation facilities. Thus, during an embargo, oil stored in salt domes will be readily available to all sections of the country at equitable cost.

Q. How will the military be provided for in the event of another embargo?

A. Of the 1.3 billion barrels of petroleum emergency storage capacity, 300 million barrels will be reserved for national defense needs in case of an emergency.

Q. Won't petroleum for storage have to be purchased from high priced foreign oil?

A. No. We will not purchase significant quantities of oil for at least a couple of years, at which time prices may have broken. In addition, our strategic reserves will be partially filled from domestic sources.

Q. Will we store all the oil in salt domes, or will some be stored in conventional tanks?

A. The type of storage facility, location and the mix of crude oil and product to be stored will be determined in a report to Congress one year after enactment of the Strategic Reserve Bill. However, preliminary studies indicate that crude oil will comprise the majority of the reserve and will be stored in salt domes, although there will probably be selected product storage in steel tanks.

STANDBY AUTHORITY

Q. What kind of standby authority are you asking for?

A. The main features of the proposed legislation to deal with emergency situations are:

- to allocate and control the price of domestic oil;
- to ration end use of energy directly if necessary;
- to implement energy conservation programs;
- to increase domestic oil production and allocate supplies of critical materials.
- to regulate and control petroleum inventories.

This legislation will also contain authority for the U.S. to comply with the International Energy Program requiring international sharing of oil in times of emergency.

Q. Why are you asking Congress for standby energy emergency authorities?

A. In an emergency situation, such as an embargo, the President should have the authority to act quickly and effectively to minimize the impact on this country. Furthermore, standby conservation authority is one of the requirements of the International Energy Plan. I must emphasize, however, that this is "standby" authority to be activated only in a time of crisis.

LONG-TERM ACTIONS

RESEARCH AND DEVELOPMENT

Q. What are you doing about solar energy development?

A. Federal funding for solar energy R&D has climbed from approximately $3 million in FY 1972 to approximately $50 million in FY 1975. The recently enacted Solar Heating and Cooling Demonstration Act of 1974 provides an additional $60 million over five years for developing and demonstrating solar heating and cooling technology. Planning is well underway to implement this program. The Solar Research and Development Act which was also just recently enacted authorizes another $75 million in FY 1976 for solar energy R&D. The Administration is continuing to review the requirements of the program to determine the appropriate level of funding that can be usefully spent over the next five years to develop solar energy technology.

Q. What are your specific proposals with regard to increasing nuclear R&D?

A. Nuclear energy holds great promise in satisfying our energy demand. Unfortunately, it now accounts for only 1% of our energy needs due to technical problems, construction delays, and other bottlenecks which have slowed its progress. We are markedly increasing the budget appropriation for nuclear waste disposal and for continued improvements in safeguards.

Q. Will your Synthetic Fuels Commercialization Program encourage oil shale development at the expense of the environment?

A. No. The program could lessen environmental impacts if we can learn to commercialize cleaner types of production, such as in-situ processing of oil shale. In addition, one of the important purposes of this program will be to investigate and determine the environmental problems associated with synthetic fuels development and to identify the solutions.

Only when we have developed commercially useable technologies which are environmentally acceptable will we proceed to the final step of full commercial implementation.

Q. Many environmentalists are concerned about the development and use of the nuclear breeder reactor -- what is the Administration's position on this issue?

A. We have continued support of an expanded R&D program for breeder reactors and will spend over $500 million in FY 76 to answer some of these questions.

All projections indicate that nuclear power will become an increasingly important source of electric power generation. However, for such growth to occur, nuclear fuel will need to be readily available, for our supply of economically available domestic nuclear fuel is limited. Thus, we must supplement this domestic supply by developing other supply sources.

The breeder reactor is one such supply source. Other sources of nuclear fuel and other methods for nuclear power generation are also being investigated.

Q. What role will ERDA play in achieving these goals?

A. ERDA's mission is to develop ways of using solar energy, geothermal energy, nuclear power, coal gasification and other new or undeveloped energy sources and will play a major role in achieving our long-term goals.

ECONOMIC IMPACT

ECONOMIC IMPACT

Q. What impact will be made on the Federal budget by those programs proposed within the energy message?

A. There will be very small budget impacts in FY 75. In FY 76 these programs could increase Federal obligations by 100-200 million dollars, mostly for conservation and facility siting programs, but of course those are more than offset by the revenues raised by the conservation tax measures.

The emergency storage program will be financed from a special fund which will utilize revenues from Naval Petroleum Reserve production.

Q. The Administration expects prices of energy and energy-intensive goods to rise, and plans to offset the impact by reducing income taxes. Won't this affect individuals and income groups differently? Will low-income households tend to be affected more? How does the Administration plan to assist low-income households?

A. Individuals and income groups will be affected differently by these proposals. What we can do and are doing is to provide a level of tax relief that will stimulate the entire economy for the benefit of all citizens. These tax cuts proposed by the Administration will provide relief to low-income households. In addition a rebate of $80 per adult will be provided to individuals whose incomes are so low that they do not pay taxes.

Q. What are the long run and short run effects of the President's program on the regional costs of energy?

A. While there will be some significant fuel price increases in the Northeast, the uneven regional effects will be dealt with through the existing cost equalization program and lower product import fees. In the longer term, regional effects will be handled by decontrolling the price of crude oil and thus eliminating any petroleum price differentials.

Q. What will the effects of the program be on the economy in terms of inflation and recession?

A. This program contains the balancing elements essential to meet the problems inherent in the existing economic environment. It will reduce our balance of payments, increase domestic resource development, and encourage recognition of the need for energy conservation and the fact that energy is no longer abundant. This program will produce higher prices in the short run which will result in a one-time increase in inflation, but will prepare us for dealing with future energy disruptions which could be devastating to our economy.

Q. How much will all your programs increase the average family's bills in a year?

A. This program is estimated to increase the average middle-income family's energy budget by about $250 in 1975.

Q. What will be the effect of this program on the dollar outflow for oil?

A. The United States spent $2.7 billion on petroleum imports in 1970. This dollar outflow rose to $23.6 billion in 1974. If no new actions are initiated, we estimate the petroleum revenue outflow to reach $32.1 billion in 1977 and $32.4 billion in 1985. With this program, we estimate outflows to be $21.3 billion in 1977 and $12.0 billion in 1985.

INTERNATIONAL

INTERNATIONAL

Q. How do you expect the OPEC producing countries to react to your energy program?

A. Most of the OPEC governments have urged on several occasions that the U. S. and other consumer countries adopt policies to encourage conservation and more rational energy use. Many of them have also suggested that the industrial countries accelerate the development of alternative energy sources to reduce demands on their non-renewable petroleum reserves. We believe these features of the President's program will be viewed favorably by the producing countries as well as by other importing countries.

Q. Will we get any North Sea oil? Mexican oil?

A. While the United States will strive to achieve energy independence, we will still have to import some oil and will try to import from relatively secure sources. We will pursue negotiations with Mexico and with North Sea oil producers to add imports from these areas.

Q. Regarding Canada's decision to phase out exporting crude to the U.S., what effect will this have on the U.S., particularly on the Upper Midwest supply and demand situation?

A. Domestic refiners in the upper Midwest will be obliged to obtain their crude oil from alternate sources. This will probably require the construction or expansion of pipeline capacity. Marketers in this region may be able to obtain refined products from Canada should a crude shortfall develop in the interim. Demand will be unaffected unless a severe product shortage arises, with its attendant gasoline lines and other inconveniences. Careful planning and timing should enable the change in supply patterns to take place with a minimum of disruptions in product availability or price.

GENERAL

Q. Do you believe that the National Environmental Policy Act (NEPA) is a hindrance to the development of domestic energy production?

A. No, I do not. NEPA was promulgated to insure that environmental concerns were considered in Government decision making. Because of this new, major consideration decision making will in many instances take more time and require more detailed review than was required in the past. However, this process should ensure that the energy projects selected will maintain the quality of the environment.

Q. What would be the projected profit picture for the oil industry this year if a windfall profits tax were enacted? If one were not enacted?

A. Either way, we estimate that profits will be relatively constant this year. If we maintain price controls but do not enact a windfall profits tax, we can expect industry profits to remain stable. If we decontrol old oil and enact a tax, we can expect a small decrease in profits from last year's levels.

Q. What are you going to do about getting New England to build refineries?

A. The Administration intends to encourage refinery construction in all areas of the country and particularly in those in which there is a significant refining deficit. In New England, for example, it would be beneficial to have refining capability now and particularly if Atlantic OCS production begins. Refineries in that area could offset New England's extensive reliance on product imports and could create jobs.

Q. Why do we say that independence and self-sufficiency can now be attained in 1985 rather than 1980 as was earlier announced by President Nixon?

A. After a thorough review of potential domestic supply and demand for all fuels, on a regional basis, we have concluded that independence by 1980 cannot be attained. The lead-times for exploring and producing oil from new sources and for constructing new facilities is too great to expand domestic supply sufficiently.

Q. How can you propose great increases in resource development when it is a fact that there are acute shortages of materials and equipment throughout the economy?

A. At present, many categories of steel products, plate and tubular goods are in short supply. There is little that can be done to accelerate supply in the next 2-3 years and that is why this program concentrates on reducing demand. Within the 1975-1985 time period, however, new capacity will come on-stream and the problem will be eased.

Q. In compiling your energy message, whose statistical data did you rely on -- industry or government?

A. Ours. One of the real achievements in the last year was growth in the capability of the Federal government to provide its own energy data. The analyses in this program were developed by the government using its own reporting systems and analytical tools.

Q. What can the public do to contribute to the success of your program?

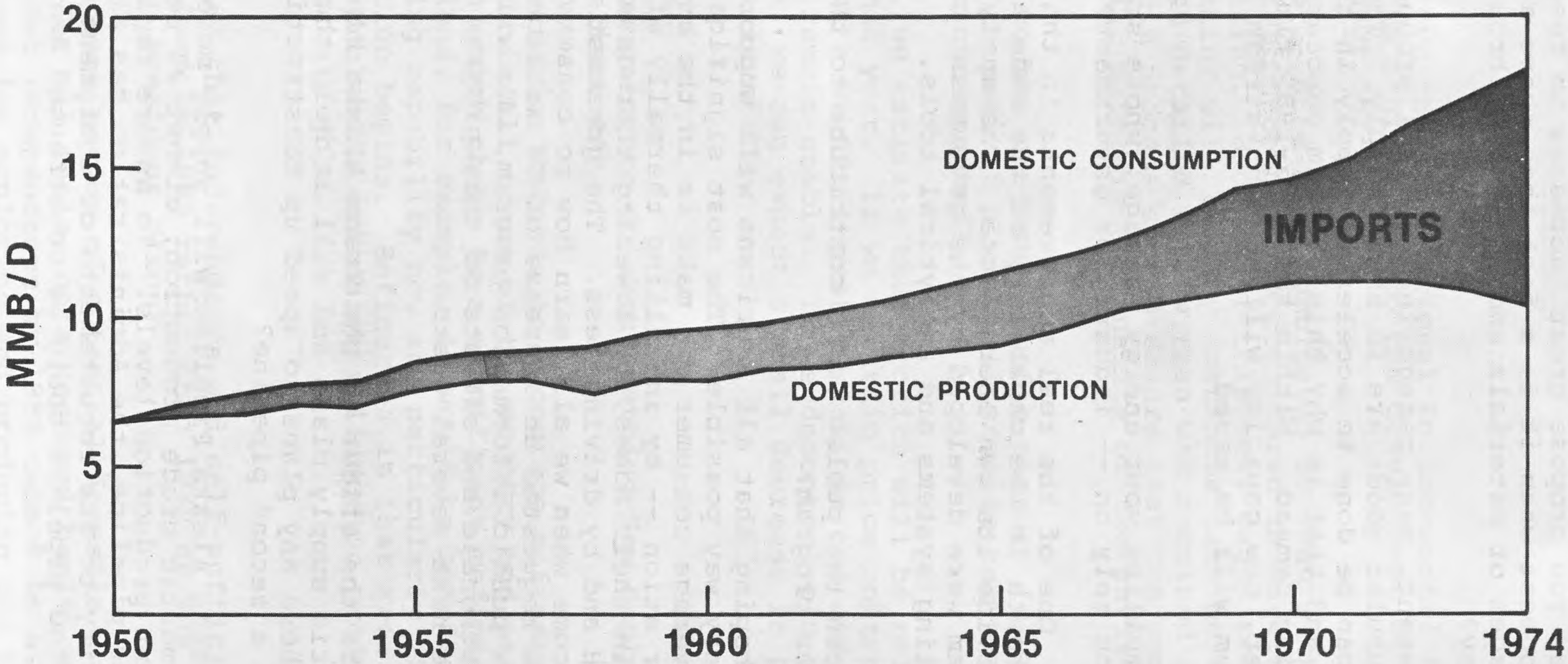
A. I am hoping that all Americans will support this program in every way possible. The most significant contribution the average consumer can make is in the area of energy conservation -- by installing thermally efficient insulation in their homes, by lowering thermostats, by driving 55 MPH and by driving less. The greatest contributions will come when we all learn how to conserve which is why I have requested an increase of $4 million in the government's public information program. We will try to explain the rationale and effects of this program to all Americans in the next several weeks.

Q. What is the effect of the Trans Alaska Pipeline on domestic supply plans and will it help the situation? Are there any plans to speed up construction? What about a second pipeline?

A. The Trans Alaska Pipeline will supply more than 2 MMB/D of domestic crude production, almost 20 percent above current production levels. To assure rapid completion of the pipeline, the Administration has already given priority to its requirements of equipment and materials. A second pipeline could be constructed later if necessary.

GPO 882-971

PETROLEUM TRENDS



1973 CRUDE PETROLEUM PRODUCTION AND
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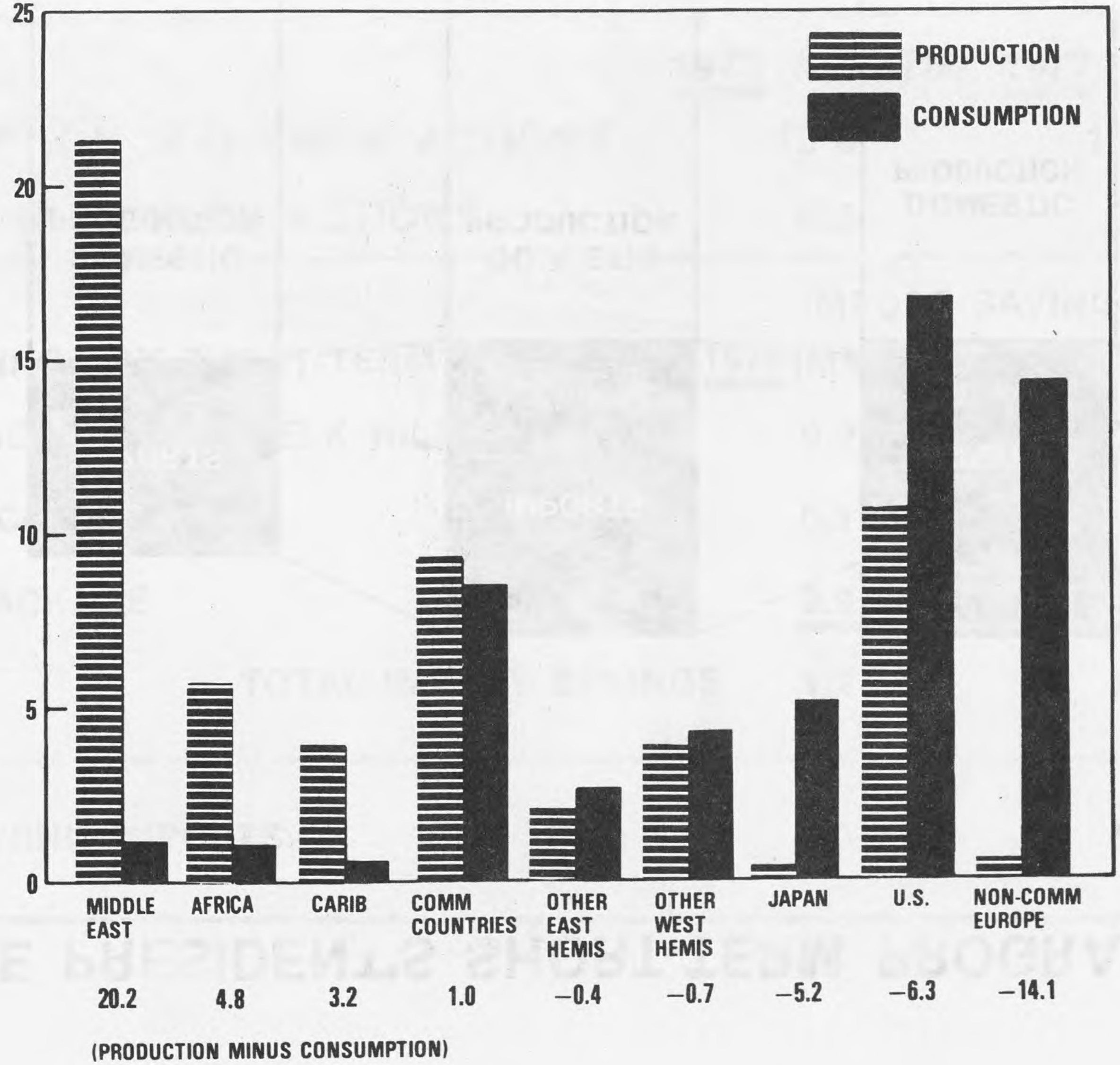
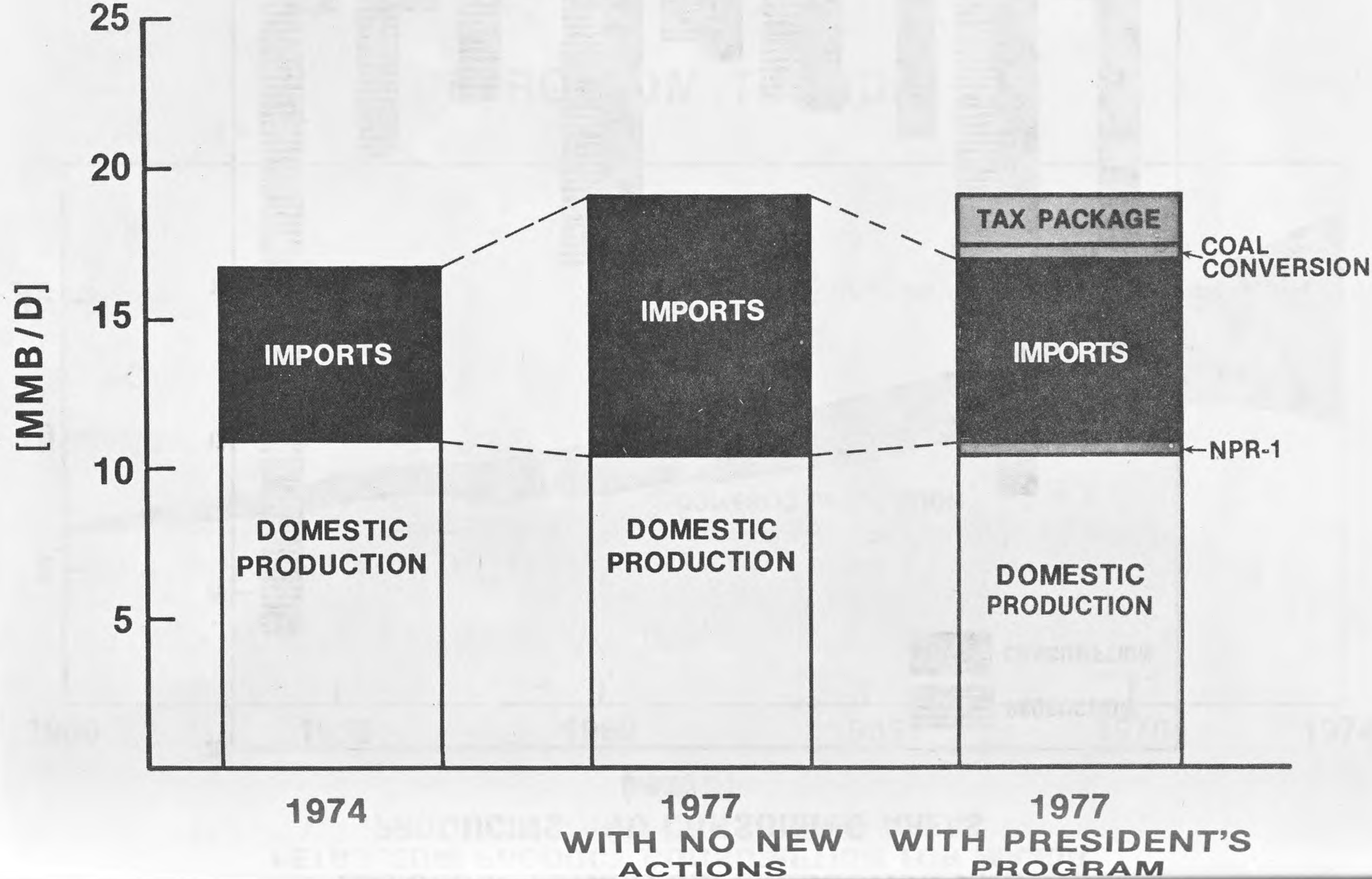
1973 CRUDE PETROLEUM PRODUCTION AND PETROLEUM PRODUCT CONSUMPTION FOR MAJOR PRODUCING AND CONSUMING AREAS

(MMB/D)



THE PRESIDENT'S SHORT-TERM PROGRAM



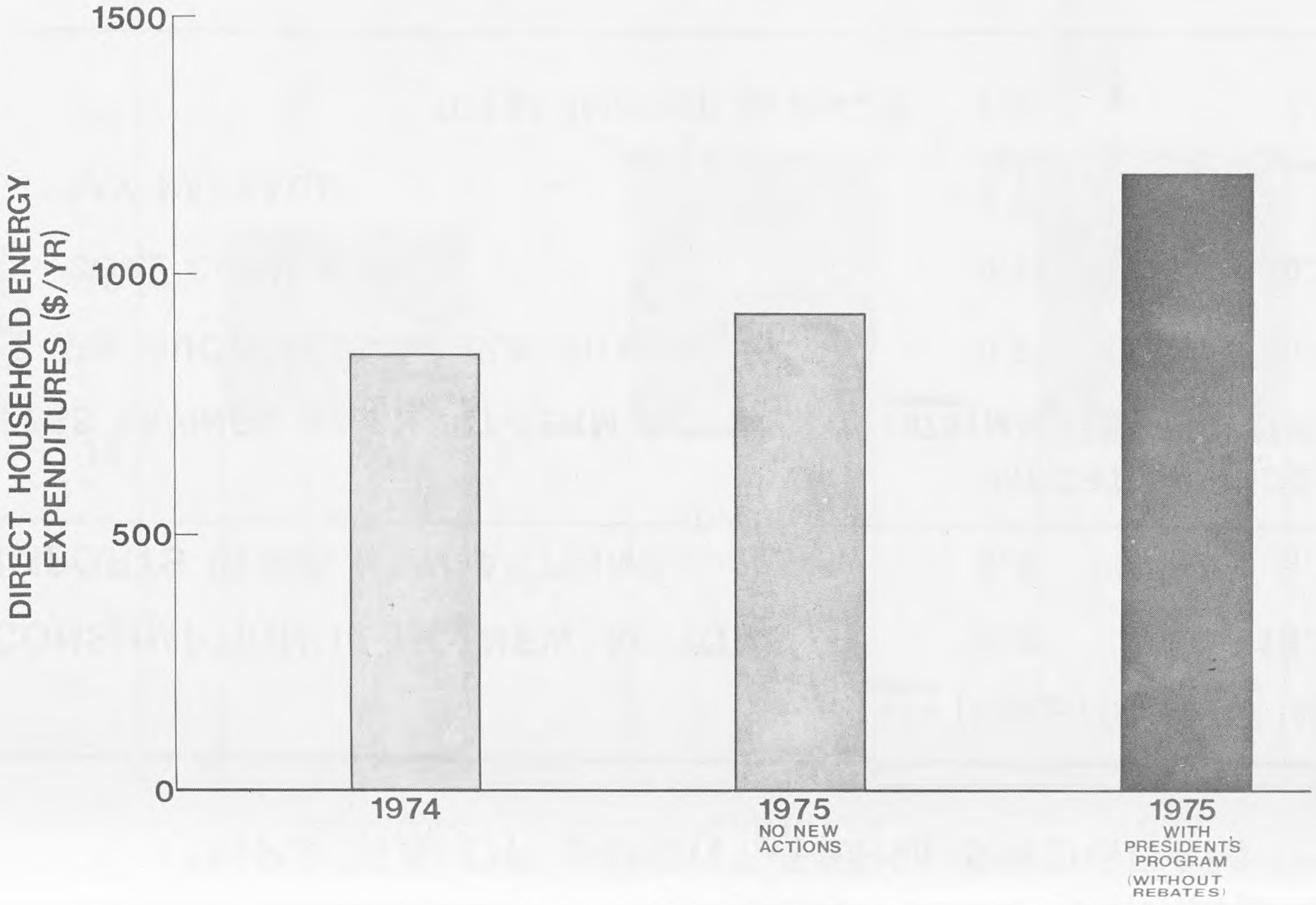
IMPACTS OF SHORT-TERM PROGRAM

	1975 [MMB/D]	1977 [MMB/D]
CONSUMPTION IF NO NEW ACTIONS	18.0	18.3
IMPORTS IF NO NEW ACTIONS	6.5	8.0

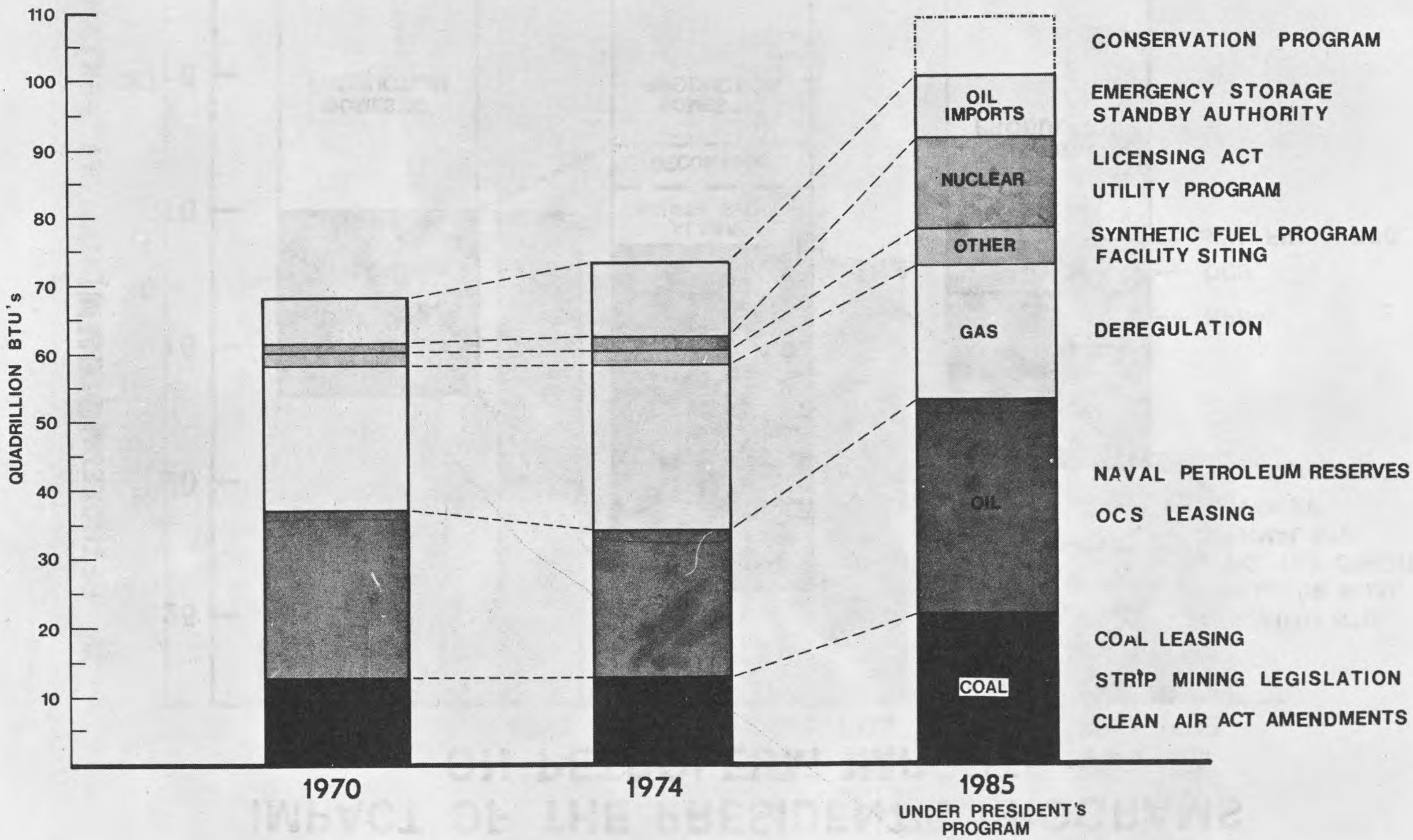
	IMPORT SAVINGS	
LESS SAVINGS BY SHORT-TERM ACTIONS:	1975 [MMB/D]	1977 [MMB/D]
PRODUCTION FROM ELK HILLS	0.2	0.3
COAL CONVERSION	0.1	0.3
TAX PACKAGE	0.9	1.6
TOTAL IMPORT SAVINGS	1.2	2.2

REMAINING IMPORTS	5.3	5.8

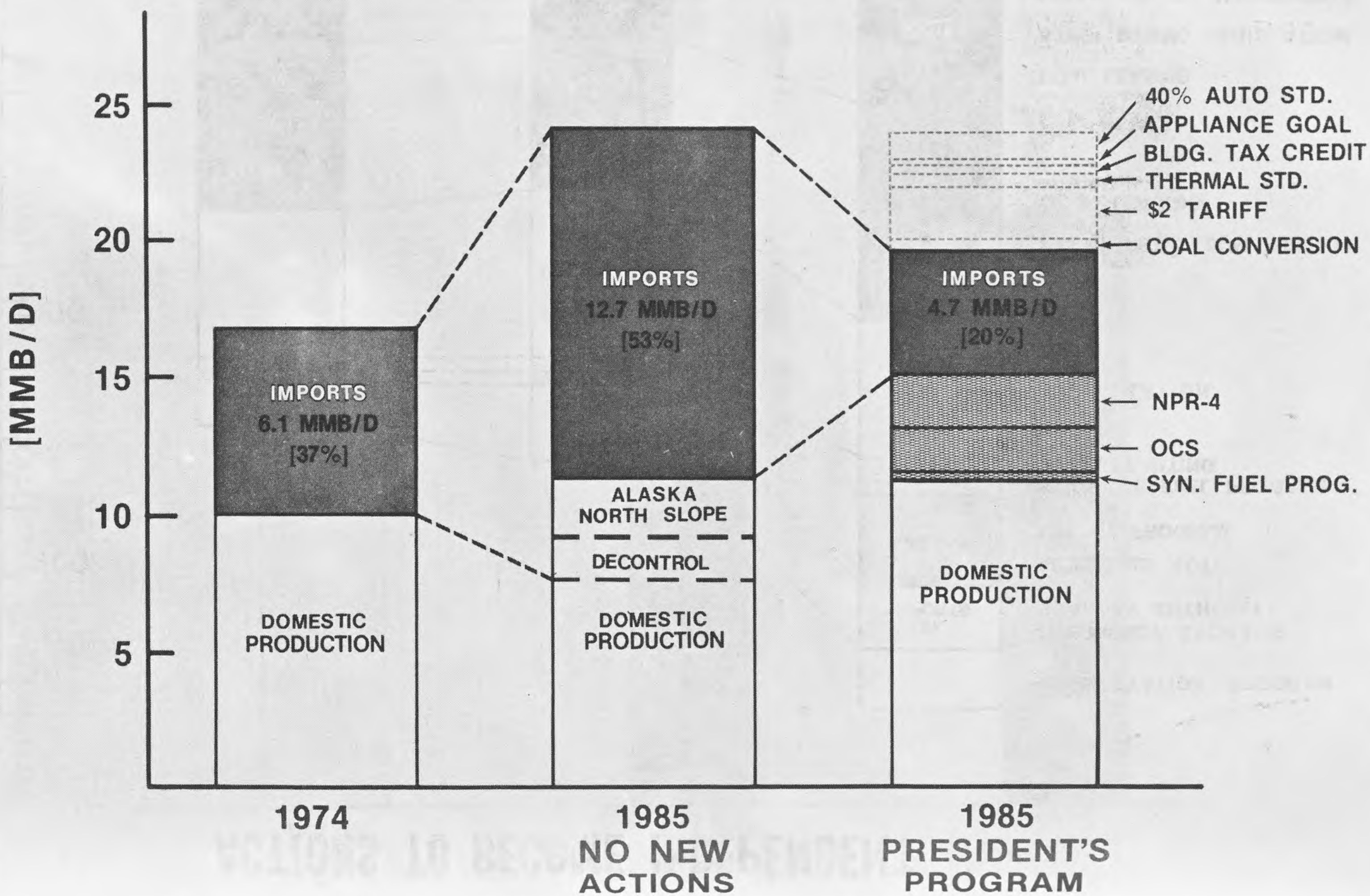
PRICE EFFECTS OF PROGRAM



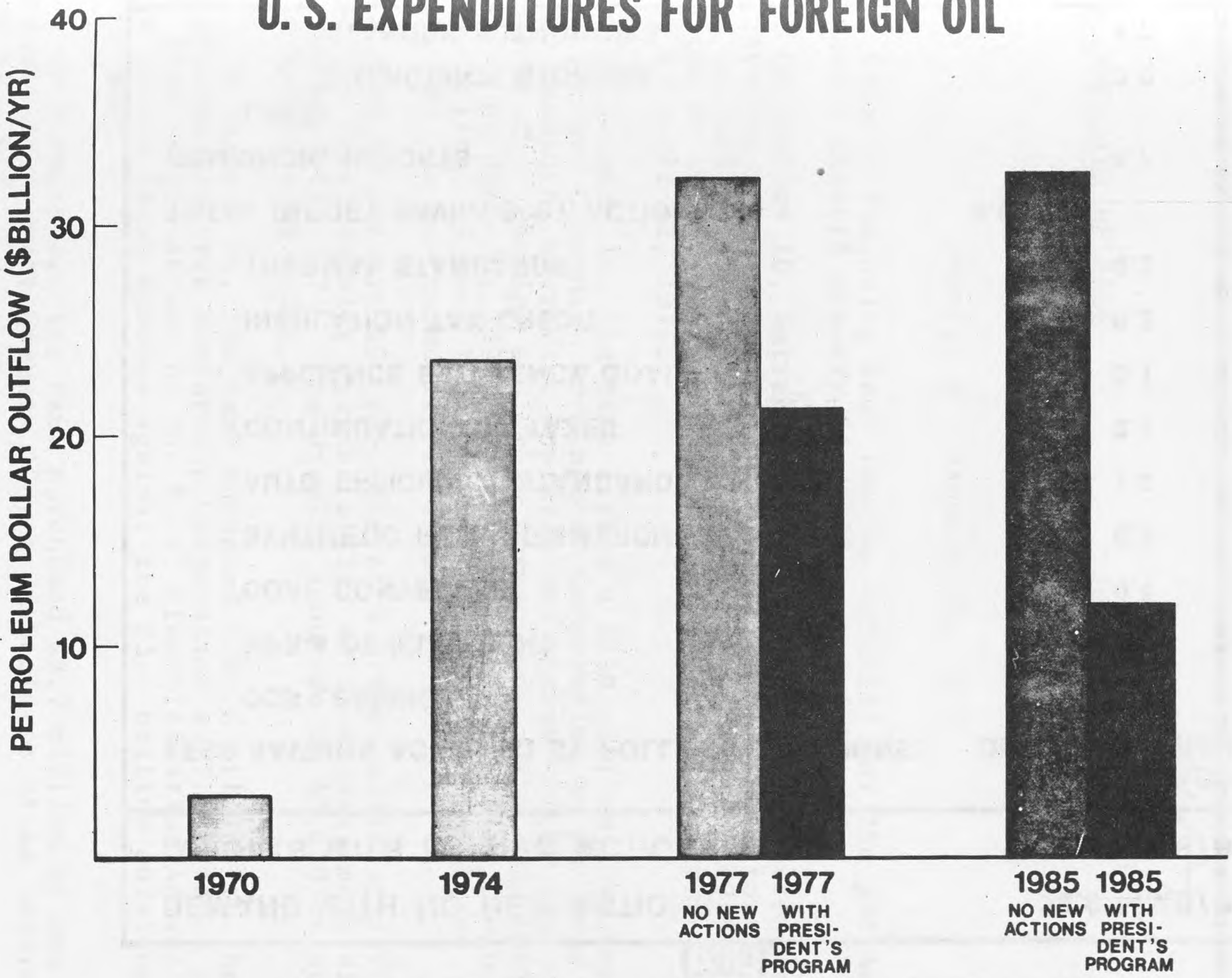
ACTIONS TO BECOME INDEPENDENT



IMPACT OF THE PRESIDENT'S PROGRAMS ON PETROLEUM IMPORTS



U. S. EXPENDITURES FOR FOREIGN OIL



EFFECTS OF MID-TERM PROGRAM (1985)

DEMAND WITH NO NEW ACTIONS		23.9 MMB/D
IMPORTS WITH NO NEW ACTIONS		12.7 MMB/D
LESS SAVINGS ACHIEVED BY FOLLOWING ACTIONS:		1985 IMPACT ON IMPORTS [MMB/D]
OCS LEASING		1.5
NPR-4 DEVELOPMENT		2.0
COAL CONVERSION		0.4
SYNTHETIC FUEL COMMERCIALIZATION		0.3
AUTO EFFICIENCY STANDARDS		1.0
CONTINUATION OF TAXES		2.1
APPLIANCE EFFICIENCY GOALS		0.1
INSULATION TAX CREDIT		0.3
THERMAL STANDARDS		0.3
TOTAL IMPORT SAVINGS BY ACTIONS	8.0	
REMAINING IMPORTS		4.7
LESS:		
EMERGENCY STORAGE		3.0
STANDBY AUTHORITIES		1.7
NET IMPORT VULNERABILITY	0	

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FOR IMMEDIATE RELEASE January 28, 1975

SUMMARY OF LENDING ACTIVITY

January 6 - January 24, 1975

Federal Financing Bank lending activity for the period January 6 through January 24, 1975 was as follows:

On January 10, Amtrak, the National Railroad Passenger Corporation renewed its $100 million line of credit for 91 days by rolling over outstanding advances totaling $40.9 million at an interest rate of 7.144%. The new maturity date is April 11, 1975.

On January 10, the Bank signed a $100 million commitment with the New Community Development Corporation to purchase notes issued by borrowers approved and guaranteed by the Department of Housing and Urban Development. The commitment expires on June 30, 1975. On the same day, the Bank closed a $4 million, 15 year loan at 7.75% with Flower Mound New Town, Ltd., a new community in Texas.

Also on January 10, the General Services Administration made its first drawing against a $107 million commitment signed on December 13, 1974. The drawing amounted to $3,000 at an interest rate of 8.25%.

On January 16, the Bank advanced $206.5 million to the Oglethorpe Electric Membership Corporation at 7.50% for 2 years. The loan is guaranteed by the Rural Electrification Administration. This is the first advance against the $3.5 billion outstanding commitment.

On January 22, the Bank purchased $8.7 million of Small Business Investment Company 10-year debentures at an interest rate of 7.95%.

On January 24, the Bank purchased $6 million of notes from the Department of Health, Education and Welfare under the Medical Facilities Loan Program. The interest rate is 8.08%.

Federal Financing Bank loans outstanding on January 24, 1975 total $4.7 billion. Unfilled commitments total $3.9 billion.

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FOR IMMEDIATE RELEASE January 28, 1975

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 $5,100,000,000 , or thereabouts, to be issued February 6, 1975, 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 November 7, 1974 and to mature May 8, 1975 (CUSIP No. 912793 WH5), originally issued in the amount of $2,099,710,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,400,000,000, or thereabouts, to be dated February 6, 1975, and to mature August 7, 1975 (CUSIP No. 912793 XH4).

The bills will be issued for cash and in exchange for Treasury bills maturing February 6, 1975, outstanding in the amount of $4,710,780,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,558,580,000. 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, Monday, February 3, 1975. 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 February 6, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 6, 1975. 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 IMMEDIATE RELEASE January 28,1975

NEW RETIREMENT BONDS OFFERED BY TREASURY

The Treasury Department today announced the offering of Individual Retirement Bonds pursuant to the Employee Retirement Income Security Act of 1974. The bonds are specially designed for investment by persons who are not covered by any retirement plan.

The bonds will be sold at par in denominations of $50, $100 and $500, and will provide an investment yield of 6 percent a year, compounded semi-annually. Interest, together with the principal, will be paid only upon redemption.

Purchase applications for the bonds are now available at any Federal Reserve Bank or Branch, or direct from the Treasury. Bonds bought during January will bear interest from January 1, 1975. They may only be registered in the names of natural persons in single ownership or beneficiary form.

Treasury officials explained that investment in these bonds is one of several investment options available under the above pension reform legislation. It permits a person working for a company that is unable to finance a pension plan for him to set aside a part of his income for retirement and deduct the amount from his Federal income tax return. The annual limitation on deductions is $1,500, or 15 percent of gross income, whichever is smaller.

Because of the purpose for which they are being issued, the bonds have certain redemption restrictions. After the first year of issue, the bonds may be cashed prior to the owner's reaching age 59-1/2 years, but with a tax penalty. They may, however, be cashed for the purpose of changing investments at any time up to maturity without a tax penalty. The bonds mature when the owner has reached age 70-1/2 years, at which time the amounts deducted to purchase the securities and the interest thereon become reportable for Federal income tax purposes. During the first year of issue, any bond may be redeemed without interest or penalty.

The new retirement bonds, the Treasury emphasized, should be distinguished from the U. S. Retirement Plan Bonds. The latter bonds are available for investment by self-employed persons and qualified pension and profit-sharing trusts. Their issuance is made under the Self-Employed Individuals Tax Retirement Act of 1962.

Regulations on the Individual Retirement Bonds will appear in the Federal Register dated January 28, 1975.

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SUMMARY OF TERMS AND CONDITIONS

UNITED STATES INDIVIDUAL RETIREMENT BOND

(For detailed information on the terms and conditions, consult Department of the Treasury Circular, Public Debt Series No. 1-75)

A.	Effective date:	January 1, 1975
B.	Who may buy:	Generally, all persons not covered by any other retirement plan during taxable year
C.	Issuing and Paying agencies:	Federal Reserve Banks and Branches or the Bureau of the Public Debt, Securities Transactions Branch, Washington, D. C. 20226
D.	Denominations:	\$50, \$100, \$500
E.	Issue date:	First day of month in which payment is received by an issuing agent
F.	Maturity date:	Bond matures when owner has attained age 70-1/2 years; could be earlier if owner has died before reaching that age
G.	Interest:	Interest accrues through increase in redemption value at beginning of each half-year period providing an investment yield of 6 percent, compounded semiannually; no interest if redeemed within first year
H.	Registration:	In owner's name alone, or with a beneficiary
I.	Redeemability:	° Redeemable without interest during first year of issue ° Redeemable with tax penalty after first year and before owner is age 59-1/2 years ° Redeemable for authorized rollovers without penalty after first year and before owner is age 70-1/2 years ° Redeemable in case of death or disability

J.	Reissue:	Bonds may be reissued to add, eliminate or substitute a beneficiary
K.	Safety:	Bonds will be replaced if lost, stolen or destroyed
L.	Taxation:	Bonds are subject to estate, inheritance or other excise taxes, whether Federal or State
M.	Income tax advantage:	Deduction for issue price of bonds for taxable year of purchase
N.	Income tax liability:	When owner redeems bonds, liability accrues for interest earned on bond and for amount of deduction taken for the year of purchase
O.	Redeemability prior to maturity at option of Treasury:	None
P.	Nontransferability:	Bonds cannot be transferred, sold or used as collateral
Q.	Annual limitation:	Ordinarily, purchases in any one year may be up to $1,500, or 15 percent of compensation, whichever is smaller; the limitation does not apply to authorized rollover purchases

EXECUTIVE OFFICE OF THE PRESIDENT

COUNCIL ON WAGE AND PRICE STABILITY

726 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20506

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FOR RELEASE AT 10:30 A.M. EST
Wednesday, January 29, 1975

FOR INFORMATION CALL:
202-456-6757

REMARKS BY ALBERT REES, DIRECTOR
COUNCIL ON WAGE AND PRICE STABILITY
BEFORE THE SOUTHEASTERN-INTERNATIONAL
EDUCATIONAL POULTRY CONVENTION
ATLANTA, GEORGIA
JANUARY 29, 1975

FOOD COSTS AND PRICES

It is a great pleasure to join you at this impressive convention, though I must confess that I am a bit surprised to find myself here. By no stretch of the imagination can I be considered an expert on poultry and eggs. I was born and raised in a big city -- to be precise, in the Borough of Manhattan in the City of New York -- and I was frequently awakened by the clatter of a garbage truck, but never by the crowing of a rooster.

I do know, however that few industries in America have a better record of increasing productivity and lowering prices than the poultry industry. When I was a child, chicken was a luxury -- so expensive that unscrupulous restaurants would serve sliced pork in what were supposed to be chicken sandwiches. Now chicken has changed from something one eats only at Sunday dinner to something one buys by the bucket at a fast-food chain.

I know, too, that 1974 was a bad year for the poultry industry. Costs of feed, your major input, were unusually high relative to the prices of your products, forcing you to reduce the size of your flocks. However, recent substantial declines in the prices of soybean meal and corn, together with some increase in the price of broilers, should help to ease the problem.

Although the productivity of the poultry industry and other industries that grow and raise food has been improving rapidly, the same cannot always be said of the industries that transport, process, and distribute food. The President has asked the Council on Wage and Price Stability to devote special attention to food processing and distribution, and we are doing so. We are beginning by making a careful examination of the statistics

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on marketing margins -- the estimated spread between the price of food at the farm and at the retail store. I am happy to report that for chicken and eggs, these farm-to-retail price spreads have not shown a pronounced upward trend in the past year, and that the problems of estimating spreads are far less serious for your products than they are for dairy products or red meat. In some of these other cases, the rising estimated farm-to-retail spreads that have upset both farmers and consumer organizations may be at least in part the result of deficient estimation techniques. The Council on Wage and Price Stability is working on a report that will make recommendations for the improvement of these estimates.

In 1973, the average price of frying chicken in urban retail stores was a little less than 60 cents a pound. Of this, about 24 cents a pound was the estimated farm-to-retail price spread and about 35 cents a pound was the price to the producer, based on retail weight. About half of the spread, or twelve cents per pound, was the estimated cost of retailing.

The costs of food retailing have been rising because of higher costs of labor, packaging materials, taxes, and utilities, among others, and because there have not been any dramatic recent gains in productivity in food retailing, apart from those caused by the continuing trend toward larger stores.

Fortunately. some dramatic new technologies in retailing are beginning to be introduced. Last week, I visited a supermarket in Maryland with a completely automated checkout system, where prices are read by laser beams and the customer gets an itemized receipt that lists the specific items purchased. The system is far faster and more accurate than conventional electric cash registers. However, there are problems to be solved before such systems can move from the trial or experimental stage into general use. These problems involve consumer acceptance, effects on employment, and raising the huge sums of capital required to install an expensive technology on a wide scale. Where the benefits are clear, however, I feel confident that the problems can be overcome.

Another promising experimental technology is the central preparation of retail cuts of red meat and their transportation to the retail store already packaged in customer-sized packages. Of course, this is already being done for broilers. Unlike the automated checkout, this technology may be capital-saving as well as labor-saving. The problems to be solved involved reliable control of spoilage and contamination, as well as effects on the employment of meatcutters.

The Council on Wage and Price Stability has an active interest in wages in food retailing. Earlier this month, I met with the Joint Labor Management Committee of the Retail Food Industry in a frank and helpful off-the-record discussion. This Committee includes top officials of the major unions in the retail food industry and the major unionized employers. The Government, the unions, and the employers have a joint interest in seeing rising real wages for workers in food retailing, as for all workers.

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We also realize that in the long run the only possible source of sustained gains in real wages is gains in productivity.

In an industry like food retailing, where collective bargaining is done on a local basis, wages differ from one metropolitan area to another. It is always possible to view these differences as inequities, and to argue for restoring equity. To union members, equity means getting as much as your highest paid neighbor who does similar work, and since it is almost always possible to find someone better off than you are, the bulk of workers in the industry are condemned to a perpetual state of inequity. Where the wage comparisons are compelling and there is agreement that inequities should be remedied, it is often desirable to do so gradually.

Another area of special concern to the Council on Wage and Price Stability is the cost of transporting food. In 1973, intercity transportation of farm food products by truck and rail was estimated to cost $6.1 billion. For your industry, in 1974, such transportation was estimated to account for 1.5 cents of the retail price of a dozen eggs and 1.4 cents per pound of the retail price of broilers and turkeys. Of course, rail and truck transportation are used not only to carry farm products to market, but also to carry feed, fertilizer and other inputs to farmers and livestock growers.

Our transportation system is not nearly as efficient as it could be. The National Commission on Productivity and Work Quality estimates that the average American rail freight car is in motion on average only three hours per day, moves empty 42 percent of the miles it travels, and delivers a shipment at an average speed, counting the time it is not in motion, of only 3.1 miles per hour. Most of us can walk as fast as that.

A major source of the idleness of freight cars is the unreasonably low charges for demurrage, which make it attractive for receivers of shipments to use rail cars for storage rather than to build adequate storage capacity of their own so that they can unload cars promptly. Inappropriate fee schedules for interline rental of rail cars also contribute to idleness and empty movements.

These are just some of many outmoded aspects of present rail regulation that lower the efficiency of railroads and raise rates to shippers. The Administration plans to submit again to the 94th Congress legislation to reform and modernize the regulation of railroads.

The Council on Wage and Price Stability is also deeply concerned with the inefficiency of truck transportation, especially with empty backhauls by private motor carriers. We will be working with the Federal Trade Commission and the Interstate Commerce Commission to eliminate wastes of this sort. Your next speaker, Mr. Liebler, will undoubtedly have more to say on these issues.

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Finally, the Council is taking a hard look at other areas of Government rulemaking to make sure that new rules and regulations do not impose costs on consumers and producers that are not clearly justified by larger social benefits. In this we will be aided by the Executive Order issued by President Ford on November 27, requiring all agencies in the Executive Branch to complete inflation impact statements for all new major rules and regulations. Together with the Office of Management and Budget, the Council will receive and review these statements, and the supporting analyses. Among the areas of interest to the food industry covered by this new procedure are regulations concerning pesticides, the inspection of food processing plants, the discharge of effluents into streams, and occupational health and safety. We welcome your cooperation in calling to our attention cases where Government regulation imposes unreasonable costs on industry and where the benefits to be gained by the regulation could be achieved in a less costly way. Of course, the Council on Wage and Price Stability wants wholesome food, clean streams, and safe work places. But, we want to get them with as little effect as possible on the prices of the things we all buy.

Many ask if the Council is effective in fighting inflation and whether or not price controls are just around the corner. We think our short life has so far been a productive one. For example, in December, three major steel companies raised prices on many of their products and we were able to persuade them to roll back about one-fifth of these increases. The balance of the increases is justified by higher costs of labor and raw materials. The price increases subsequently announced by other steel companies were much smaller in amount, and fell within the limits set by the rollbacks. This action saved users of steel an amount well in excess of 100 million dollars a year.

In my opinion, the steel experience indicates that a voluntary wage-price policy can work. We have been called a "toothless tiger" and a "90-pound weakling" in the press because we lack statutory authority to control prices and wages. These colorful names seriously underestimate the power of the President of the United States -- not just President Ford, but any President -- to persuade people to act in the public interest.

Circumstances have changed greatly in the few months since we began our activities. The economy is now in a severe recession. Price increases are moderating, and many prices are beginning to fall. The seasonally adjusted Wholesale Price Index for December fell for the first time in fourteen months. We need no longer confine ourselves to the routine question posed by price controls, "How do you justify your price increases in terms of costs?" We can begin to ask, "How do you justify your price increases in terms of the demand for your products?" and even, "Why aren't your prices coming down?"

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The nature of the inflationary process has changed in 1975. It no longer reflects current excess demand and widespread commodity shortages. The leading elements in the process are now the rising price of energy and rising unit labor costs, caused by continuing substantial wage increases and the decline in output per man hour. The Council on Wage and Price Stability is beginning to extend its monitoring activities to wage negotiations and is prepared to enter into discussions with the parties to collective bargaining where this seems appropriate.

Proposals to amend or replace the Council on Wage and Price Stability Act are being made in Congress. Several bills of this sort were introduced in the last Congress. Some of these are being reintroduced, together with new ones.

The Administration, myself included, is firmly opposed to bills that would restore general wage and price controls, and any such bill, if passed, would undoubtedly be vetoed by the President. Not only are general controls not needed, but the threat of them is creating widespread fear and counter-productive behavior in business and labor organizations. Unions are afraid to moderate their wage demands and businesses are afraid to lower their prices for fear that they will be frozen into an unfavorable position by new control legislation.

Some of the legislative proposals are so recent that we have had little time to study them. Some would give the Council subpoena power, some would give it added resources, and some would give it power to delay wage and price increases for 60 days. While these proposed powers are preferable to general controls, some raise serious questions. If delay power were to be used routinely, it might displace price and wage increases forward in time, and price increases would be announced in anticipation of cost increases. Moreover, routine use of delay powers would create onerous reporting burdens for companies and unions. Many wage agreements are reached as settlements of strikes. If their implementation were delayed 60 days, would the strikers return to work? or would the proposed procedure prolong industrial strife? These are serious questions that deserve careful thought.

We are committed to an active voluntary wage-price policy in 1975. We hope very much that it can be a flexible one, that will not recreate some of the problems that Congress was so anxious to be rid of less than a year ago.

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REMARKS OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE
THE QUADRANGULAR CONFERENCE II
GEORGETOWN UNIVERSITY
JANUARY 27, 1975, EST

DR. ABSHIRE, DISTINGUISHED GUESTS AND PANELISTS, LADIES AND GENTLEMEN:

I AM HAPPY TO BE HERE TODAY AND TO HAVE THIS CHANCE TO DISCUSS THE PRESIDENT'S PROGRAM FOR DEALING WITH OUR NATION'S URGENT ECONOMIC AND ENERGY PROBLEMS. THESE PROBLEMS -- INFLATION, RECESSION AND ENERGY -- ARE COMPLEX AND INTER-RELATED, AND SO IS THE PRESIDENT'S PROGRAM FOR SOLVING THEM.

WE ARE CONSCIOUS OF THE TREMENDOUS RESPONSIBILITY, BOTH DOMESTICALLY AND INTERNATIONALLY, THAT WE BEAR IN THESE AREAS, AND WE ARE RESOLVED TO MOVE FORWARD ON THEM WITH ALL THE SKILL, TENACITY AND WISDOM WE POSSESS.

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I AM SURE THAT MOST OF YOU ARE FAMILIAR WITH THE MAIN ELEMENTS OF THE PRESIDENT'S PROPOSALS, SO I WILL CONFINE MY DISCUSSION TO SOME OF THE MORE IMPORTANT ISSUES WE CONSIDERED AS WE DEVELOPED THESE PROPOSALS.

ONE OF THE FIRST ISSUES WE FACED WAS THE QUESTION OF HOW TO ACHIEVE AN ECONOMIC TURNAROUND WITHOUT PROVOKING A FURTHER RISE IN THE RATE OF INFLATION. A TAX REFUND SEEMED OBVIOUS BECAUSE IT IS THE FASTEST AND SUREST MEANS OF REVIVING ECONOMIC ACTIVITY.

AT THE SAME TIME, THE PRESIDENT DECIDED AGAINST ANY NEW SPENDING PROGRAMS OUTSIDE THE ENERGY FIELD BECAUSE OF THE DANGER THAT THIS COULD OVER-STIMULATE THE ECONOMY AND SET OFF ANOTHER ROUND OF OVERWHELMING INFLATION.

SOME OF YOU MAY KNOW THAT I HAVE A REPUTATION AS A HAWK WHEN IT COMES TO WARNING OF THE DANGERS OF INFLATION. THAT'S A LABEL I WEAR PROUDLY. LET ME TELL YOU WHY. INFLATION HAS NOT ONLY HAD A DEBILITATING EFFECT ON THE SPENDING POWER OF MILLIONS OF AMERICANS, ESPECIALLY THE POOR, BUT IT WAS ALSO A MAJOR CAUSE OF TODAY'S RECESSION. IN TRUTH, THE RECESSION IS THE HANGOVER

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FOLLOWING OUR LONG REVELRY WITH INFLATIONARY EXCESSES.

INFLATION IS THE CHIEF CULPRIT IN THE SLUMP OF THE HOUSING INDUSTRY -- A KEY COMPONENT OF OUR ECONOMY. BY THE END OF LAST YEAR, NEW HOUSING STARTS HAD FALLEN BELOW A MILLION-UNIT ANNUAL RATE. TWO YEARS AGO, STARTS WERE RUNNING AT NEARLY A 2-1/2 MILLION ANNUAL RATE. BUT INFLATION LED TO INSTABILITY IN FINANCIAL MARKETS, DROVE UP INTEREST RATES, DRIED UP THE SUPPLY OF MORTGAGE CREDIT AND SENT HOUSING INTO A TAILSPIN. AND WE CANNOT EXPECT THE HOUSING INDUSTRY TO REGAIN FULL HEALTH UNTIL WE GET INFLATION UNDER BETTER CONTROL.

THERE HAVE BEEN MANY CAUSES FOR THIS INFLATION, INCLUDING THE QUADRUPLING OF WORLD OIL PRICES AND RECENT FOOD SHORTAGES, BUT, IN MY OPINION, THE BIGGEST SINGLE FACTOR THAT SHOULD CONCERN ALL OF US HAS BEEN A DECADE OF IRRESPONSIBLE GOVERNMENT ACTIVITY -- EXCESSES IN FISCAL AND MONETARY POLICY WHICH CREATED A FALSE PROSPERITY AND HAVE NOW LED US INTO AN ECONOMIC QUAGMIRE.

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THE GROWTH IN FEDERAL EXPENDITURES AND FEDERAL DEFICITS HAS BEEN STARTLING. IT TOOK 186 YEARS FOR THE FEDERAL BUDGET TO REACH $100 BILLION, A LINE IT CROSSED IN 1962, BUT THEN ONLY NINE MORE YEARS TO REACH $200 BILLION AND ONLY FOUR MORE YEARS -- THIS YEAR -- TO BREAK THE $300-BILLION BARRIER. REVENUES, OF COURSE, HAVE NOT KEPT UP WITH EXPENDITURES, SO THAT WHEN WE CLOSE THE BOOKS ON FISCAL YEAR 1975, WE WILL HAVE HAD BUDGET DEFICITS IN 14 OF THE PAST 15 YEARS -- AND THE ACCUMULATED DEFICITS FOR THAT PERIOD ALONE COULD EXCEED $160 BILLION. NOR DOES THAT FIGURE INCLUDE THE ENORMOUS GROWTH OF OFF-BUDGET SPENDING, WHICH HAS TOTALED AN IMMENSE $142 BILLION DURING THE LAST 10-YEAR PERIOD ALONE.

THERE CAN BE NO DOUBT ABOUT THE INFLATIONARY IMPACT OF GIGANTIC FEDERAL SPENDING PROGRAMS AND THE DEFICITS WHICH HAVE ACCOMPANIED THEM. THEY HAVE ADDED ENORMOUSLY TO DEMAND FOR GOODS AND SERVICES, CONTRIBUTED TO THE PERSISTENT RISE IN INTEREST RATES, AND TENDED TO UNDERMINE THE CONFIDENCE OF THE PUBLIC IN THE GOVERNMENT'S ABILITY TO GOVERN, LET ALONE DEAL

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WITH INFLATION AND OUR OTHER ECONOMIC PROBLEMS.

THIS CURRENT STATE OF AFFAIRS MAY WELL POSE THE ULTIMATE DILEMMA FOR THOSE WHO BELIEVE THAT YOU CAN REMEDY THE PROBLEMS CAUSED BY BIG GOVERNMENT BY STILL BIGGER GOVERNMENT: NOW DAWNS THE REALIZATION THAT THE MORE MONEY GOVERNMENT SPENDS, THE MORE SEVERE OUR ECONOMIC TROUBLES CAN BECOME.

THIS IS A VERY DIFFICULT CIRCLE TO BREAK. AND THIS IS WHY OUR GOAL MUST BE TO KEEP A BALANCE. WE CAN RECOVER FROM THE CURRENT RECESSION, BUT WE MUST DO IT IN A WAY THAT DOES NOT LEAD TO AN OVERHEATING OF THE ECONOMY AGAIN, AS WE HAVE OFTEN DONE SO OFTEN IN THE PAST.

THAT IS WHY THE PRESIDENT PROPOSED A MORATORIUM ON ALL NEW SPENDING PROGRAMS OUTSIDE THE ENERGY FIELD AND WHY HE INTENDS TO VETO BILLS WHICH VIOLATE THAT MORATORIUM.

HOW TO FREE OURSELVES FROM THE YOKE OF THE OIL CARTEL WAS THE SECOND MAJOR QUESTION THAT WAS PONDERED BY THE PRESIDENT DURING THE DEVELOPMENT OF HIS STATE OF THE UNION

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PROPOSALS. NEARLY 40 PERCENT OF OUR OIL NOW COMES FROM ABROAD. IF WE ARE TO RETAIN CONTROL OVER OUR ECONOMIC DESTINY, WE MUST REDUCE OUR VULNERABILITY TO FOREIGN SUPPLY CUT-OFFS BY REDUCING OUR TOTAL ENERGY DEMAND AND DEVELOPING ALTERNATIVE SOURCES.

THERE ARE ESSENTIALLY TWO ALTERNATIVE APPROACHES WE COULD HAVE TAKEN TO THE CONSERVATION PROBLEM: RATIONING AND THE USE OF THE PRICING SYSTEM. I CANNOT IMAGINE THAT THE AMERICAN PEOPLE WILL REALLY WANT RATIONING ONCE THEY THINK IT THROUGH -- OR WOULD WANT TO LIVE WITH IT ONCE THEY GOT IT.

TO CUT A MILLION BARRELS A DAY FROM OUR CONSUMPTION BY RATIONING ONLY GASOLINE, WE WOULD HAVE TO HOLD DRIVERS TO AN AVERAGE OF LESS THAN 9 GALLONS PER WEEK -- A REDUCTION OF ABOUT 25% FROM TODAY. TO REACH THE 1977 GOAL OF A 2-MILLION-BARRELS-A-DAY REDUCTION WOULD REQUIRE A SECOND 25% REDUCTION. NO DOUBT WE WOULD SOON BE PUSHED TO RATIONING NOT JUST GASOLINE BUT ALL OTHER PETROLEUM PRODUCTS, SUCH AS FUEL OIL, JET FUEL, DIESEL

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FUEL, REFINERY PRODUCTS GOING INTO PETROCHEMICALS, ETC.

LAST YEAR, WHEN WE CONSIDERED THE FEASIBILITY OF RATIONING GASOLINE, WE CONCLUDED THAT WHILE IT COULD BE IMPLEMENTED, IT WOULD TAKE FOUR-TO SIX MONTHS TO SET UP, EMPLOY ABOUT 15-TO-20,000 FULL-TIME PEOPLE, INCUR $2 BILLION IN ADDED FEDERAL COSTS, USE 40,000 POST OFFICES FOR DISTRIBUTION, AND REQUIRE 3,000 STATE AND LOCAL BOARDS TO HANDLE EXCEPTIONS. MOREOVER, ANY RATIONING SYSTEM IS LIKELY TO REMAIN IN EFFECT FOR 5-10 YEARS.

PEOPLE SHOULD ASK THEMSELVES WHICH THEY PREFER: THE SUGGESTED INCREASE IN PRICES, OR A SYSTEM IN WHICH SOMEONE ELSE COULD TELL THEM WHERE AND WHEN THEY MIGHT DRIVE, HOW WARM THEY MIGHT KEEP WHICH ROOMS, OR WHETHER THEY CAN OPEN A BUSINESS OR NOT.

DOES ANYONE HONESTLY BELIEVE THAT THE AMERICAN PUBLIC IS WILLING TO TRADE THESE BASIC FREEDOMS -- IN PERPETUITY -- FOR 10¢ A GALLON?

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OUR ANALYSIS IS THAT THE ENERGY PROGRAM WOULD ADD ABOUT TWO POINTS TO THE CONSUMER PRICE INDEX ON A ONE-TIME INCREASE BASIS, BUT WE WOULD NOT EXPECT IT TO FURTHER DEPRESS THE ECONOMY SINCE THE MONEY COLLECTED WOULD BE RETURNED TO ITS SOUCRES THROUGH TAX REDUCTIONS. TAXPAYERS COULD, IF THEY WISH, CONTINUE TO PURCHASE MORE EXPENSIVE OIL AND OIL PRODUCTS. AND THEY WOULD HAVE EXTRA MONEY TO DO IT WITH. THE QUESTION THEY WOULD FACE IS WHETHER THEY WISH TO SPEND THAT EXTRA MONEY FOR MORE EXPENSIVE OIL OR WHETHER THEY WISH TO USE IT FOR SOME OTHER PURPOSE.

IN ADDITION TO PRESERVING THE INDIVIDUAL'S FREEDOM TO DECIDE HOW MUCH ENERGY HE WILL USE, THE PRESIDENT'S PROGRAM WILL ENCOURAGE ENERGY CONSERVATION AND STIMULATE THE DEVELOPMENT OF ADDITIONAL SOURCES OF DOMESTIC OIL AND GAS AND ALTERNATIVE SOURCES OF ENERGY. RATIONING WOULD ACCOMPLISH NONE OF THESE THINGS. IT WOULD NOT INCREASE ENERGY SUPPLIES OR STIMULATE NEW INVESTMENT IN ALTERNATIVE SOURCES. IT WOULD ONLY TIGHTEN THE GRIP OF BUREAUCRACY ON OUR PERSONAL FREEDOMS, WHILE CREATING

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ARTIFICIAL SHORTAGES AND UNNECESSARY HARDSHIPS AND INEQUITIES.

FINALLY, I WOULD LIKE TO TOUCH ON ANOTHER PROBLEM THAT WILL BE OF GREATER CONCERN TO US AS WE PULL OUT OF THIS RECESSION -- THE FACT THAT TODAY WE DO NOT HAVE THE LEVEL OF CAPITAL INVESTMENT THAT WE NEED TO MODERNIZE AND EXPAND OUR PRODUCTIVE PLANT. UNLESS WE SOON REVERSE THIS TREND OUR INDUSTRY WILL NOT BE ABLE TO CREATE ENOUGH NEW JOBS FOR OUR EXPANDING LABOR FORCE. WE WILL NOT BE ABLE TO CURB INFLATION AND RAISE STANDARDS OF LIVING THROUGH INCREASED PRODUCTIVITY. AND WE WILL NOT BE ABLE TO COMPETE SUCCESSFULLY IN WORLD MARKETS.

FOR YEARS AMERICA'S GREAT ECONOMIC MACHINE HAS BEEN TILTED IN THE WRONG DIRECTION. INSTEAD OF CONTINUALLY RENEWING AND ENLARGING OUR ECONOMIC FOUNDATIONS, WE HAVE ALLOWED THEM TO ERODE AWAY WHILE WE HAVE ENJOYED A LONG BINGE OF OVER-SPENDING AND OVER-CONSUMPTION. THE BILLS FOR THIS BINGE ARE COMING DUE TODAY. AND UNLESS WE SOON REVERSE THESE TRENDS, THE BILLS CAN ONLY GROW LARGER IN THE FUTURE.

ONCE AGAIN, LET'S LOOK AT THE FACTS. FROM 1960 THROUGH 1971, ANNUAL CAPITAL INVESTMENT IN THIS COUNTRY AVERAGED

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APPROXIMATELY 18 PERCENT OF OUR GROSS NATIONAL PRODUCT -- THE SMALLEST FIGURES OF ANY MAJOR INDUSTRIALIZED NATION IN THE FREE WORLD. IN JAPAN, ANNUAL CAPITAL INVESTMENT AVERAGED OVER 33 PERCENT OF GNP, WHILE IN GERMANY IT AVERAGED 26 PERCENT AND IN FRANCE, 22 PERCENT. THUS, THE AMOUNT OF ITS ANNUAL INCOME THAT THE UNITED STATES WAS WILLING TO PUT BACK INTO NEW PLANT AND EQUIPMENT WAS SMALLER THAN IN MOST OF THE NATIONS WITH WHOM WE COMPETE.

THERE IS A CLOSE CORRELATION BETWEEN THE RATE OF CAPITAL INVESTMENT AND THE INCREASE IN A NATION'S PRODUCTIVITY. THE ANNUAL GROWTH IN PRODUCTIVITY DURING THE 1960S AND EARLY 1970S AVERAGED MORE THAN 10 PERCENT IN JAPAN, ALMOST 6 PERCENT IN GERMANY AND FRANCE, AND ONLY 3.3 PERCENT HERE IN THE UNITED STATES.

IT SEEMS FAIR TO OBSERVE THAT OUR CURRENT AND PROSPECTIVE LEVELS OF CAPITAL INVESTMENT SIMPLY WILL NOT SUSTAIN THE KIND OF ECONOMIC GROWTH AND PRODUCTIVITY THAT AMERICA NEEDS FOR

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THE FUTURE -- FOR OUR CAPITAL INVESTMENT NEEDS ARE GROWING, NOT SHRINKING.

ESTIMATES OF THE ACTUAL AMOUNTS NEEDED VARY CONSIDERABLY. FOR THE ENERGY INDUSTRY ALONE OVER THE NEXT DECADE, THESE RANGE FROM THREE QUARTERS TO ONE TRILLION DOLLARS. ONE ESTIMATE FOR OUR TOTAL NEEDS BETWEEN NOW AND 1985 IN ALL FIELDS IS $3 TRILLION. THE MESSAGE IS CLEAR: AMERICA MUST SOON TURN AWAY FROM THE CONSUMPTION ETHIC AND RETURN TO THE ETHICS OF THRIFT AND INVESTMENT.

A MAJOR REASON FOR THE RELATIVELY LOW LEVEL OF CAPITAL INVESTMENT HAS BEEN A SHARP DECLINE IN CORPORATE PROFITS. THE SUGGESTION IN RECENT YEARS THAT BUSINESSES HAVE PROSPERED WHILE INDIVIDUALS HAVE SUFFERED IS SIMPLY UNTRUE. CORPORATE PROFITS IN THE AGGREGATE, AFTER ADJUSTING FOR THE IMPACT OF INFLATION, ARE AT AN ALL-TIME LOW AS A PERCENTAGE OF OUR TOTAL NATIONAL INCOME. CONSIDER FOR A MOMENT THE LEVEL OF UNDISTRIBUTED PROFITS -- THE FUNDS THAT CORPORATIONS HAVE LEFT TO FINANCE ADDITIONAL

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NEW CAPACITY. IN 1965, AFTER ADJUSTING FOR THE EFFECTS OF INFLATION, THERE WERE $20 BILLION OF UNDISTRIBUTED PROFITS. BY 1973 -- AFTER EIGHT YEARS IN WHICH REAL GNP GREW 36% -- THE UNDISTRIBUTED PROFITS OF NONFINANCIAL CORPORATIONS HAD DROPPED TO $6 BILLION. AND FOR 1974, OUR PRELIMINARY ESTIMATE IS THAT THE FIGURE FOR UNDISTRIBUTED PROFITS IS A MINUS OF NEARLY $10 BILLION. THAT MEANS THAT THERE WAS NOT NEARLY ENOUGH EVEN TO REPLACE EXISTING CAPACITY, AND NOTHING TO FINANCE INVESTMENT IN ADDITIONAL NEW CAPACITY.

THESE DEVELOPMENTS ARGUE STRONGLY THAT TAX RELIEF FOR BUSINESS IS BOTH DESERVED AND REQUIRED.

TO HELP RESTORE CORPORATE PROFIT LEVELS SO THAT BUSINESSES CAN MODERNIZE AND EXPAND, THE PRESIDENT HAS PROPOSED A SERIES OF TAX CHANGES. INCLUDED ARE RECOMMENDATIONS TO REDUCE THE CORPORATE INCOME TAX RATE, TO PERMIT TAX DEDUCTIONS FOR DIVIDENDS PAID ON QUALIFIED PREFERRED STOCK, AND TO RAISE THE INVESTMENT TAX CREDIT TO 12%.

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WHILE MANY OF THE CHALLENGES FACING OUR ECONOMIC SYSTEM MUST BE SOLVED PRIMARILY IN THE PRIVATE SECTOR, THE FEDERAL GOVERNMENT HAS A POSITIVE RESPONSIBILITY TO HELP, AND THERE ARE A NUMBER OF WAYS THAT I BELIEVE WE CAN HELP. LET ME SUM THESE UP:

-- FIRST, WE CAN AND WILL TAKE STEPS TO PREVENT THE RECESSION FROM DEEPENING TO INTOLERABLE LEVELS.

-- SECOND, WE MUST NOT ABANDON THE MORE LONG-RANGE FIGHT AGAINST INFLATION, FOR INFLATION IS AT THE ROOT OF MANY OF THE MOST SERIOUS DISTORTIONS IN THE ECONOMY AND IS THE AVOWED ENEMY OF SAVINGS AND INVESTMENT.

-- THIRD, WE MUST ENACT LEGISLATION THAT WILL CREATE GREATER INCENTIVES FOR CAPITAL INVESTMENT, THAT WILL ALLOW OUR FINANCIAL INSTITUTIONS TO OPERATE MORE FLEXIBLY, AND

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THAT WILL PERMIT OUR CORPORATIONS TO EARN ENOUGH PROFITS TO PAY GOOD WAGES AND ALSO INVEST IN THE FUTURE.

-- FOURTH, WE MUST LIFT THE HEAVY BURDEN OF FEDERAL REGULATION FROM THE MANY AREAS WHERE IT RESTRICTS THE EFFICIENCY AND GROWTH OF THE FREE ENTERPRISE SYSTEM. COMPETITION IS STILL THE BEST ROUTE TO AN EFFICIENT AND PRODUCTIVE ECONOMIC SYSTEM, AND THAT IN TURN REMAINS THE BEST MEANS WE HAVE OF FIGHTING INFLATION AND CREATING MORE JOBS.

-- FINALLY, OVER THE LONG RUN, WE MUST RESTORE AND MAINTAIN GREATER DISCIPLINE IN OUR FISCAL AND MONETARY POLICIES SO THAT THEY SUPPORT REASONABLE GROWTH BUT AVOID THE EXCESSES THAT DID SO MUCH TO GET US INTO TODAY'S TROUBLES.

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IN SUMMARY, I THINK YOU CAN SEE FROM WHAT I HAVE SAID THAT IN DEVISING A PROGRAM FOR DEALING WITH THE TRIPLE THREATS OF INFLATION, RECESSION AND ENERGY DEPENDENCE, THE PRESIDENT HAS OPTED FOR LESS GOVERNMENT AND MORE PERSONAL FREEDOMS WHEREVER POSSIBLE.

IN MAKING THESE CHOICES, HE HAS GIVEN THE AMERICAN PEOPLE A CHANCE TO SAY "NO" TO ANOTHER INCREASE IN THE DOMINANCE OF GOVERNMENT OVER THEIR DAILY LIVES. IT MAY PROVE TO BE ONE OF THE LAST CHANCES WE HAVE TO PRESERVE OUR REMAINING FREEDOMS.

THANK YOU.

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FOR IMMEDIATE RELEASE January 28,1975

DALE S. COLLINSON PROMOTED TO
DEPUTY TAX LEGISLATIVE COUNSEL AT TREASURY

Secretary of the Treasury William E. Simon today announced the appointment of Dale S. Collinson, of Oklahoma City, Oklahoma, as Deputy Tax Legislative Counsel.

Mr. Collinson, 35, has been Associate Tax Legislative Counsel since July 1973, and prior to that Attorney-Advisor since July 1972, his first Treasury post.

As Deputy Tax Legislative Counsel, Mr. Collinson will assist the Tax Legislative Counsel, Phillip L. Mann, in heading a staff of lawyers and accountants who provide assistance and advice to the Assistant Secretary of the Treasury for Tax Policy, Frederic W. Hickman. The Office of Tax Legislative Counsel also helps develop and review tax regulations and rulings, and takes part in the preparation of Treasury Department recommendations for Federal tax legislation.

The Office of Tax Legislative Counsel is one of four major units under the direction of the Assistant Secretary for Tax Policy. The other three are the Office of Tax Analysis, the Office of International Tax Counsel, and the Office of Industrial Economics.

Before joining the Treasury Department, Mr. Collinson served as Associate Professor of Law (1968-72) and Assistant Professor of Law (1966-68) at Stanford Law School. At Stanford, his primary teaching field was International Business transactions, particularly European Economic Community Law, and Admiralty Law; as well as Estate Planning and Foreign Taxation. He also had been associated with the firm of Cleary, Gottlieb, Steen and Hamilton in their Brussels, Belgium, location.

A native of Oklahoma, Mr. Collinson graduated with highest honors from Yale University, earning an A.B. degree in 1960, and from Columbia University with an LL.B. degree in 1963, ranking first in a class of 228. At Columbia, he was a Notes and Comments Editor for the Law Review.

After receiving his law degree, Mr. Collinson clerked for Judge Hays of the United States Court of Appeals for the Second Circuit for a year, and from 1964-66, was Law Clerk to Justice Byron R. White, United States Supreme Court.

Mr. Collinson is married to the former Susan Waring Smith of Irvington-on-Hudson, New York. They have one son, Stuart, 2, and reside in Arlington, Virginia.

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FOR IMMEDIATE RELEASE January 28,1975

PHILLIP L. MANN APPOINTED
TAX LEGISLATIVE COUNSEL AT TREASURY

Secretary of the Treasury William E. Simon today announced the appointment of Phillip L. Mann, of Houston, Texas, as Tax Legislative Counsel.

Mr. Mann, 35, has been Deputy Tax Legislative Counsel at Treasury since January 1974, and prior to that served as Consultant to that office since November 1973, his first government post.

Promotion to Tax Legislative Counsel places Mr. Mann in charge of the staff of lawyers and accountants who make up one of the four major units under the Assistant Secretary for Tax Policy, Frederic W. Hickman. The other three units are the Offices of Tax Analysis, International Tax Counsel, and Industrial Economics.

As Tax Legislative Counsel, Mr. Mann heads a staff which reviews and assists in the development of tax regulations, rulings, and other tax policy matters, and participates in preparation of the Treasury Department's recommendations for Federal tax legislation before Congressional Committees.

Before joining the government, Mr. Mann was a partner in the law firm of Fulbright & Jaworski, Houston, Texas. Mr. Mann is a graduate of the University of Texas at Austin, from which he received his B.B.A. (with honors) and LL.B. degrees. Born in Alva, Oklahoma, September 24, 1939, he attended local schools and the University of Oklahoma (1957-58).

He has been admitted to practice in Texas, the United States Tax Court, the United States District Courts for the Southern and Western Districts of Texas, and the United States Court of Appeals for the Fifth Circuit.

Mr. Mann has authored or assisted in the preparation of articles published in professional journals on various tax subjects, including partnership taxation, foreign taxation, and tax litigation, and has lectured on tax subjects at professional institutes. He is a past Chairman of the Committee on Collections and Limitations, Tax Section of the American Bar Association.

Mr. Mann is married to the former Barbra Roloff, of Victoria, Texas. They have two children and reside in Chevy Chase, Maryland.

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NEWS

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FOR IMMEDIATE RELEASE JANUARY 27, 1975

REVISED 'TREASURY STORY'
ISSUED AS BICENTENNIAL PUBLICATION

The Department of the Treasury's Office of Public Affairs has published a revised Bicentennial version of its popular publication delineating the history and operation of the Department.

Now titled, "The Treasury Story", the booklet has been modernized and brought up to date with changes in the organization of the Department. It also includes new offices and bureaus established since the booklet was last revised in 1972.

With a new cover and more modern format, the publication will be available to the general public through the Government Printing Office. The booklet is also intended to serve as a general introduction to the Treasury Department for the casual Bicentennial visitor in Washington.

Besides a brief history of the Department, which dates back to 1789 and is the second oldest of the Cabinet Departments, the 'Story' contains synopses of the various components of the Treasury Department and their functions.

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NEWS

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FOR IMMEDIATE RELEASE January 28, 1975

RESULTS OF AUCTION OF 3-1/4-YEAR TREASURY NOTES

The Treasury has accepted $3.0 billion of the $6.4 billion of tenders received from the public for the 3-1/4-year notes auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	7.17%	a/
Highest yield	7.23%	
Average yield	7.21%	

The interest rate on the notes will be 7-1/8%. At the 7-1/8% rate, the above yields result in the following prices:

Low-yield price	99.814
High-yield price	99.643
Average-yield price	99.700

The $3.0 billion of accepted tenders includes 76 % 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, $0.9 billion of tenders were accepted at the average-yield price from Government accounts and from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

a/ Excepting 6 tenders totaling $1,115,000

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FOR IMMEDIATE RELEASE January 29, 1975

RESULTS OF AUCTION OF 6-YEAR TREASURY NOTES

The Treasury has accepted $1.75 billion of the $4.2 billion of tenders received from the public for the 6-year notes auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	7.40% a/
Highest yield	7.52%
Average yield	7.49%

The interest rate on the notes will be 7-3/8%. At the 7-3/8% rate, the above yields result in the following prices:

Low-yield price	99.881
High-yield price	99.311
Average-yield price	99.453

The $1.75 billion of accepted tenders includes 24% 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, $ 0.4 billion of tenders were accepted at the average-yield price from Government accounts and from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

a/ Excepting 4 tenders totaling $33,000

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FOR IMMEDIATE RELEASE January 30, 1975

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON FINANCIAL MARKETS
OF THE SENATE FINANCE COMMITTEE
WASHINGTON, D.C., JANUARY 30, 1975

Mr. Chairman and Members of this Subcommittee:

We have now entered a second year of inflated oil prices and of dealing with the problems those prices create. The hearings called by this Subcommittee provide a welcome opportunity to discuss our experience in this situation and our plans for the future.

With the quadrupling of international oil prices, unprecedented amounts of money have begun flowing into the hands of a few oil-producing countries. We estimate that in 1974 the thirteen OPEC countries received about $90 billion from oil exports, or roughly four times the amount they earned in 1973. In addition, their other exports amounted to about $5 billion, bringing their total receipts to $95 billion. During this same period, the OPEC nations spent approximately $35 billion -- or a little more than a third of their export receipts -- on imports. This left a balance of approximately $60 billion available for investment abroad. Let me emphasize that these are only estimates, since official data on these transactions is limited.

What happened to this balance of approximately $60 billion? Where did the OPEC countries place this money? Since the OPEC countries publish very little information on this subject, our answers must be based largely on information compiled by the recipient nations and reports on individual transactions. Recognizing, then, that our figures are both rough and tentative, let me review our best estimates on what happened to these OPEC funds in 1974:

-- Some $21 billion, or about 35 percent of the surplus, apparently went into the Eurocurrency market, basically in the form of bank deposits.

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-- Some $11 billion, or 18-1/2 percent, flowed directly into the United States. Available figures suggest that of this amount, roughly $6 billion went into short and longer-term U.S. Government securities, while some $4 billion were placed in bank deposits, negotiable certificates of deposit, bankers' acceptances, and other money market paper. As best we can tell, less than $1 billion was invested in property and equities in this country.

-- Some $7-1/2 billion, or about 12-1/2 percent, is believed to have been invested in pound sterling denominated assets in the United Kingdom, some of it in U.K. Government securities, some in bank deposits, some in other money market instruments and some in property and equities. This amount, I should note, is quite apart from the large Eurocurrency deposits there.

-- Some $5-1/2 billion, or about 9 percent, may have been accounted for by direct lending by OPEC countries to official and quasi-official institutions in developed countries other than the U.S. and the U.K.

-- About $3-1/2 billion, or 6 percent of the total, represented OPEC investments in the obligations of official international financing institutions such as the World Bank and the IMF.

-- Perhaps $2-1/2 billion, or 4 percent, has flowed from the OPEC countries to other developing countries. This includes funds channeled through various OPEC lending institutions such as the Kuwait Fund and the Arab Bank for Africa.

-- With regard to the remaining 15 percent, we have only limited information, but this residual would cover funds directed to investment management accounts as well as private sector loans and purchases of corporate securities in Europe and Japan. There are, of course, other transactions we simply know nothing about.

It is our view that there are two important points to be drawn from these figures.

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-- First, these surpluses were not somehow withheld by OPEC but were placed somewhere in one of the oil importing countries. Earlier, concern had been expressed that OPEC would somehow "cut off" the flow of capital to the oil importing world--in the same way that they could "cut off" the flow of oil. Such concern was based on a misunderstanding. So long as the OPEC countries as a group run large payments surpluses, those surpluses must by definition be matched by an increase in OPEC's financial claims on oil importing countries as a group. In short, "recycling" must occur between the OPEC and the oil importing world. The only question is how it occurs and to which oil importing countries the money flows.

-- Second, the OPEC capital flows were rather widely disbursed among markets in the oil importing nations. OPEC funds did not move to one or only a few attractive capital markets, as once was feared. The United States, with the largest capital markets, received directly only $11 billion, or 18-1/2 percent, of the total, an amount substantially less than OPEC's increased receipts from oil sales to the U. S. It should be noted that the United States also continued to export large volumes of capital to other areas abroad, and that our net capital imports last year, as measured by our current account deficit, were probably in the range of only $3 billion.

The relatively balanced pattern of OPEC investments last year explains in part why the massive shifts in financial assets did not lead to the financial crises that some envisioned. The world was also well served by the greater flexibility of exchange rates which prevailed. In addition, there were steps to open up financial markets in several countries, moving toward a more integrated world capital market. Another major factor was the world-wide network of private financial institutions which generally responded to a drastically altered situation with skill and flexibility.

Concern about pressures on the banking system were nevertheless widespread, and a few individual institutions in the United States and elsewhere did in fact experience difficulties. But their troubles arose mainly from internal management problems which came to the fore in an environment of inflation, restrictive money policies and generally rising interest rates, or from their own failure to exercise proper supervision as they rapidly expanded their foreign exchange trading. The difficulties they experienced were not the result of massive inflows of OPEC monies.

The figures I mentioned earlier, tracing flows of OPEC monies, suggest that the commercial banking systems of the major industrialized countries probably accepted something approaching half of the $60 billion OPEC surpluses last year, with the Eurocurrency banks alone receiving some $21 billion. They placed these funds in a variety of outlets throughout the world. During the course of the year, the pattern of OPEC investment changed to respond to changing conditions, as banks shifted their policies to induce longer-term placements, and as they more frequently played the role of broker rather than lender of deposits. In addition there was increased emphasis on official financing, as OPEC countries began to undertake direct loans to oil importing nations, and as existing official institutions and governments gradually expanded their activities.

No one can say what the precise mix of private and official financing will be this year. It seems clear that existing institutions, public and private, will continue to play the dominant role in redistributing OPEC funds. Banks may not accept as large a portion of the surpluses in 1975. The trend toward government-to-government lending and direct purchases of marketable securities of governments is likely to continue. Disbursements under OPEC commitments of assistance to LDC's should increase. The relatively minor proportion going into corporate securities around the world may also increase somewhat. This complex of channels is likely to meet the need.

Nevertheless, all are agreed that the international community should have in place adequate supplementary facilities to meet major financing problems should they develop. Without assurance that financing will be available on reasonable terms, there is a danger that countries might lapse into restrictive actions which would disrupt the world economy. The risk of nations engaging in these practices and other nations taking retaliatory measures cannot be ignored.

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Strengthening Multilateral Facilities

It is with these concerns in mind that the United States and other countries have been working to assure that adequate multilateral facilities will be available as needed to supplement existing financial arrangements during the period ahead. Last year the United States put forward a comprehensive series of proposals, involving expanded use of International Monetary Fund resources, establishment of a "safety net" arrangement among the industrial countries of the Organization for Economic Cooperation and Development, and the setting up of a Trust Fund for the poorest developing countries. Other nations have also put forth proposals.

These various proposals were discussed here in Washington in mid-January at meetings of the Group of Ten, the IMF "Interim Committee", and the IMF/IBRD "Development Committee," I am happy to report that in our meetings there was an encouraging spirit of cooperation and of willingness to compromise and work together toward common goals. As a result, agreement was reached on a package of measures which should be of significant help not only in meeting the immediate challenges in the financial and energy fields, but also in the longer term strengthening of the international monetary system. Let me describe the main points:

-- Agreement was reached among the major OECD countries that a new Solidarity Fund, a financial support arrangement along the lines of the United States proposal for a $25 billion "safety net," should be established at the earliest possible date. This arrangement is to be available to provide supplementary financing, if the need arises, to participating OECD countries which follow cooperative economic and energy policies. Detailed work on this new arrangement is to be completed in time to permit approval by governments by the end of February 1975.

-- Agreement was reached among IMF countries that IMF resources would continue to play a role in 1975 to the extent needed. As one expression of this intent, it was agreed that the IMF oil facility should be continued on a limited basis during 1975. Borrowing from oil producers and others for this facility will be limited to about $6 billion (or 5 billion SDR's), less than some countries originally favored. This agreement was preceded by considerable discussion of different methods of using IMF resources. One approach is to use the Fund's resources in effect as collateral for loans as is done for the special oil facility. A second approach is to mobilize the Fund's resources directly for lending. In the end, it was agreed to do both. There will be some new borrowing and also increased direct use of IMF resources to meet the needs of nations in difficulty. Contributions from oil producers and industrial countries to subsidize interest costs of the IMF Oil Facility for the very poorest countries may also become a feature of the facility in 1975.

-- Agreement in principle was also reached to increase IMF quotas of member countries by approximately one-third, subject to agreement on a related package of amendments to the IMF Articles of Agreement. The major oil exporters' collective share of the total IMF quotas will be doubled in order to call for greater participation and a greater voice for these countries in the activities of the International Monetary Fund. Quota increases will be dependent upon the agreement of countries receiving quota increases not to veto use of their currencies when such use is economically justified.

-- Agreement was also reached on the general lines of a number of other amendments to the IMF Articles, with the particulars to be worked out over the months ahead. These amendments are designed to improve the structure of the IMF and bring it more in line with current realities. One amendment supported by the United States will provide that member countries are no longer required to maintain their exchange rates within narrowly fixed margins, but can float their currencies -- a practice which is not legally permissible under the IMF Articles as now written.

-- Considerable progress was also made toward narrowing differences with respect to the broader question of gold and its role in the international monetary system. It was agreed in principle that the official price of gold -- and hence its central function as "numeraire" of the monetary system -- should be abolished and that obligations on the part of members to pay the IMF in gold, and on the part of IMF to receive gold, should be ended. Progress was also made toward replacing the existing prohibition against members of the IMF buying gold in the private market with safeguards assuring that this freedom would not be used to return gold to the center of the monetary system.

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Our aim is to arrive at workable arrangements which will take gold out of the center of the international monetary system, while also allowing countries greater freedom to utilize their gold holdings. It is my hope that the entire package of quota provisions and amendments, including those relating to gold, will be ready for approval at the Interim Committee meetings scheduled for this June.

Less progress was made at these meetings than had been hoped in organizing assistance for developing countries, some of which face very serious difficulties. As I mentioned earlier, there was some support for measures to subsidize interest rates for loans to these countries from the IMF oil facility. The United States proposal for a new facility--a Trust Fund managed by the IMF which would channel funds to the poorest of the developing nations on concessional terms--remains under study. It continues to be our hope that appropriate arrangements can be devised, and that the OPEC nations will provide an appropriate part of the contributions to this effort.

"Real" versus "Financial" Aspects of Oil Prices

Mr. Chairman, in thinking about high oil prices, I find it useful to distinguish between the "financial" and the "real" aspects of the problem posed for oil importing countries. The "financial" aspects are concerned with assuring that nations can one way or another--usually by borrowing--obtain adequate amounts of money on reasonable terms to meet oil bills. The "real" aspects concern the costs for those nations of transferring a growing volume of economic resources to the OPEC nations on a continuing basis and the danger posed for their economic security by the threat of further supply disruptions. If I may be permitted an analogy, suppose that a landlord tells a tenant that he is tripling the rent but, to make sure that the tenant can make the payments, he will lend him the necessary money. The tenant may have his financing problem solved but he nevertheless faces very real economic problems. For nations, the problem is not so much that they cannot make financial arrangements to cover higher oil costs as it is that they cannot afford them.

I do not want to underestimate the financial problems generated by inflated oil prices. They are very important, but I think that last year's experience, and the agreements concluded earlier this month, provide grounds for believing they are manageable.

There is growing concensus among economic forecasters that the financial accumulations of the oil producers will not reach some of the huge figures predicted last year. Some of these initial projections of accumulations ranged as high as over a trillion dollars by 1985. These predictions, however, tended to underestimate substantially both the responsiveness of oil supply and demand to high oil prices over the long run and the capacity of the oil exporting countries to accelerate their imports of goods and services. Recent projections of OPEC financial accumulations through 1985 have been on the order of $200 to $300 billion, as measured in 1974 dollars. They also suggest that by the late 1970s or early 1980s the process of accumulation will have been substantially completed, and that the oil exporters collectively will begin to run a current account deficit. Indeed, one private projection suggested recently that this would occur by 1978.

The substantial reduction in projections of OPEC financial accumulations supports the view that the international financial aspects of the oil situation are manageable. They do not suggest, however, that the "real" aspects of the oil problem can be ignored. In my view, it is these real aspects which are of critical importance.

The real economic costs of the oil situation are not eliminated because over time our oil imports will be fully paid for by increased exports of real goods and services rather than capital imports. Nations cannot be expected to accept the prospect of swollen, unending transfers of real resources to the OPEC countries, at the cost of lower standards of living at home. Perhaps most fundamentally, the oil consuming countries will not find it acceptable to see their economic security indefinitely imperilled by the threat of supply interruption.

The President's Energy Proposal

We must concentrate our efforts on dealing with the real aspects of the oil problem. This requires the achievement of a new energy balance, which can be attained only by forceful domestic and international programs.

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Domestically, President Ford has proposed a comprehensive program to increase our energy independence which is essential if we are to regain control over our own economic destiny. Our experiences with the embargo and with the quadrupling of international oil prices are convincing evidence that we cannot continue to place such heavy reliance on foreign energy sources. The President's energy program is therefore designed to reduce our vulnerability by curtailing consumption and encouraging the development of alternative energy sources.

Let me discuss for a moment the impact of these proposals on energy conservation. It is clear that an increase in the relative price of oil will reduce its consumption. Although some laymen seem skeptical on that point, economists are certain. For every percentage change in the price of a product, there is a percentage change in the demand for it, and the ratio of the two percentages is referred to as the "elasticity of demand."

We know from economists' studies and from the experience of the last year that there is substantial price elasticity in the demand for petroleum. The price increases which occurred last year caused the consumption of petroleum to be substantially less than it otherwise would have been. During the decade prior to 1974, total U.S. petroleum demand increased at an annual rate of just over 5%. But from April to September, 1974, when petroleum prices were substantially higher, petroleum demand was under the comparable 1973 period by 2.7%. Thus, in that period of increased prices, consumption was reduced 7.7 percentage points below expectations.

Similar results have occurred in other countries. Thus, yesterday's Wall Street Journal reports:

> "Britain, West Germany and a majority of countries depend upon rising prices to encourage cuts in energy use. The Petroleum Economist, an oil weekly published in London, estimates that in the first half of last year, fuel consumption dropped from a year earlier by 14% in West Germany, by 9% in Britain, by 6% in France..."

The elasticities should be even higher in the longer term after households and business firms have had time and opportunity to react fully to higher prices by making energy-saving investments, substituting products and materials which require less energy and otherwise changing their habits and ways of doing business.

Thus, we have every confidence that the President's energy program will cause the desired reduction in consumption.

Mr. Chairman, I know that some members of this Subcommittee have also asked about the impact of the President's energy proposals on economic activity during the coming year and, specifically, whether they would have a depressing effect on the economy. Let me address this question, although I want to emphasize that it is an extremely difficult issue and a high degree of uncertainty necessarily surrounds the answer.

The President's energy proposals were designed to provide the incentive for energy conservation without having an adverse impact on the economy as a whole. The energy taxes -- including the excise taxes on crude oil and natural gas, the increased import fees, and the windfall profits tax -- will raise the energy bills of U. S. consumers by some $30 billion annually. On the other hand, however, the income tax reductions and related proposals will return that same $30 billion annually to the economy. The net budget impact of these energy proposals is, therefore, zero. In addition, the President's proposals include the $16 billion anti-recession tax cut, which means that the overall effect of the President's economic and energy total program on the economy will be stimulative.

A closely related question that has been raised concerns the timing of the various proposals -- the energy tax increases, the offsetting income tax reductions, and the $16 billion temporary tax cut. We examined this matter carefully. The pattern of these changes in terms of their direct budget impact, quarter by quarter, is shown in Table 1, attached. In the first quarter of 1975, the increase in import fees should take $200 million out of the system -- an insignificant amount in a $1500 billion economy. Thereafter, the program as a whole would provide stimulus to the economy in every quarter of this year and next, appropriately concentrated in the second and third quarters of 1975.

In addition to the budget flows shown in Table 1, both the extent and the timing of the economic stimulus or restraint of each of the various measures will depend on such factors as the indirect effects of the budget changes,

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The timing of the pass-through of higher energy costs to final users, the extent to which the changes are anticipated, and a variety of monetary and financial developments that arise out of these changes. On balance, we believe that the timing of these proposals will have no significant adverse effects on the economy as a whole.

Federal Deficits and the Private Capital Markets

In conclusion, Mr. Chairman, I would like to address a separate but related matter: the issue of the huge federal deficits that are now anticipated for the current and coming fiscal years, and the impact of those deficits on the private capital markets. As you know, our projections now show that the Federal deficit for fiscal year 1975 is likely to be close to $35 billion and in fiscal year 1976 promises to be about $50 billion. These deficits result from a combination of factors -- increased spending required by programs enacted in prior years, declining revenue estimates and higher unemployment benefits as a result of the recession, and the proposed tax cut to help us support economic recovery.

There is, of course, a dispute as to whether the anticipated deficits will strain our private financial markets. Many economists do not anticipate a problem because in past recessionary periods private credit demands have fallen off at the same time that the Federal Reserve System moved to maintain or increase the rate of growth in money and credit.

The current recession, however, may be somewhat different. Current borrowing demands by the private sector are relatively heavy, especially for this period in the recessionary cycle. In large part this is because inflation has seriously eroded the liquidity base of both households and business, with the result that large amounts of credit are necessary in the private sector just to sustain existing levels of private economic activity. Moreover, with a depressed stock market, new equity financing has not been feasible for many firms, and this has created an unusually large demand for long-term debt financing. Furthermore, because of the high cost of financing oil consumption, external financing needs of many businesses have remained large.

Our latest projection is that new corporate bond issues, which grew from $12-1/2 billion in 1973 to an estimated $25 billion in 1974, will increase even further to $30 billion or more in 1975. In addition, despite some slackening from 1974, we expect that the demand for short-term business credit will still be one of the highest yearly totals on record.

In order to meet Federal borrowing needs, we now anticipate that during calendar year 1975, the Treasury Department will be coming into the capital markets for almost $70 billion of net new financing, of which about $65 billion will be in the form of new marketable securities. On top of this immense total, Federally sponsored agencies -- FNMA, Federal Home Loan Banks, the Farm Credit Agencies, and others -- may account for another $10 billion in borrowing. As a result, the Federal Government will be raising more net new money in the capital markets than was raised by all borrowers combined -- public and private -- last year, or in any other year in the past.

I believe this amount of borrowing poses potentially large risks.

The strains could be relieved if the recession becomes deeper than we expect, if inflation subsides more rapidly than we anticipate, if the OPEC nations put a larger amount of their accumulated funds into investment in this country, or if the American public spends less and saves more. We cannot, however, be sure that any of these events will occur and it would be foolish to base our assumptions upon their occurrence. It is therefore imperative that we not enact vast new spending programs that could create excessive strains in the capital markets.

If excessive strains do develop, it is likely that housing, which -- despite massive Federal assistance programs -- is always at the end of the line in credit markets, will not recover to the extent that all would hope. In addition, marginal businesses, especially small businesses, would be cut off from the supply of credit. Neither this prospect -- nor the alternative of an excessively easy monetary policy with the threat of even more rapid inflation in the future -- is tolerable.

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I stress, therefore, the fundamental importance of adhering to a tough budgetary policy in order to restrain the momentous growth in Federal outlays and also of enacting an energy plan which will reduce the financing burden of oil imports not only on ourselves but on all consuming countries.

CONCLUSION

Mr. Chairman, I believe that prompt enactment of the President's program is vital for our own economic health and that of the world economy at large. Let me stress that the rest of the world is looking to the United States to proceed with a realistic and effective program. The success of the financial and energy initiatives we have launched to move oil importing countries collectively toward a new and viable energy balance will depend heavily on our own efforts here at home. We cannot expect to obtain optimum cooperation from others unless we ourselves also take effective action.

Thank you.

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Table 1

Direct Budget Impact
of the President's Economic and Energy Proposals

($ billions)

	Calendar Years							
	1975				1976			
	I	II	III	IV	I	II	III	IV
Energy Taxes	+0.2	+4.1	+12.6	+7.6	+7.6	+7.5	+7.5	+7.5
Return of Energy Tax Revenues to Economy								
Tax Reduction	.0	-3.2	- 9.0	-9.0	-5.6	-7.9	-6.3	-6.4
Nontaxpayers			2.0				2.0	
S&L Gov'ts	.0	-0.5	- 0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Federal Govt.	.0	.0	- 0.8	-0.7	-0.8	-0.7	-0.8	-0.7
Temporary Tax Cut	.0	-6.1	- 7.9	-0.6	-0.8	-0.9	0	0
Net Effect	+0.2	-5.7	- 7.6	-3.2	-0.1	-2.5	-2.1	-0.1

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NEWS

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FOR IMMEDIATE RELEASE January 30, 1975

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for $2,100,000,000, or thereabouts, of 364-day Treasury bills to be dated February 11, 1975, and to mature February 10, 1976 (CUSIP No. 912793 YF7).

The bills will be issued for cash and in exchange for Treasury bills maturing February 11, 1975, outstanding in the amount of $1,802,095,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $1,180,300,000. 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, February 5, 1975. 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 February 11, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing February 11, 1975. 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

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THE DEPARTMENT OF THE TREASURY 1789

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THE OIL TRANSFER PROBLEM

This paper was the basis for remarks by Thomas D. Willett, Deputy Assistant Secretary for Research on January 28, 1975. The remarks were made in the Panel Discussion on "The World Financial Structure: Coping with Inflation and International Payments Problems," at Quadrangular Conference II, sponsored by Georgetown University's Center for Strategic and International Studies.

The recent huge increases in oil prices have had a profound impact on the international economy. Never before, short of major wars, has such a rapid change occurred in the structure of world trade and payments. Severe economic repercussions have been felt in the oil importing nations in terms of both worsened inflation and unemployment in addition to the large direct transfers of purchasing power. Considerable concern has also been voiced concerning the effects of increased oil payments on the operation of the international monetary system. Such concerns stem in part from the inability of the oil producers to increase their absorption of goods and services as rapidly as their increase in revenues. Thus, in the short term at least, much of the transfer of increased oil income must take the form of increased lending to oil importing nations by the oil exporters, rather than the sale of goods and services.

The resulting large current account deficits of the oil importing countries have given rise to fears in many quarters that the international financial consequences of the increased oil prices cannot be handled.

Many have expressed fear that the difficulties of transferring sufficient goods and services to fully pay for oil imports in the short term will greatly increase the costs which the oil price increase will place on the world economy because of the resultant strain on balance of payments positions and the international financial system.

My own views, developed in this paper, are that the international financial aspects of the oil price increases are manageable and that the major costs associated with the oil price increases concern their their real economic effects. It will be argued that the financial accumulations associated with the oil transfers are likely to be much lower than many of

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the highly publicized projections made last year and that the international financial consequences of these accumulations, while clearly requiring international cooperation on a major scale, need not inherently lead to chaos.

The accumulation of oil debts need not substantially undermine the ability of oil importing nations as a group to pay off these debts when it will become required. In the aggregate, the conditions which require the debt to be paid will also allow it to be paid off. On a per country basis, the prospective accumulation of debt caused by the oil situation will not exceed proportions of exports and GNP that have frequently been experienced in the past without undermining the economic vitality of capital importing nations, nor creating insurmountable problems of debt servicing or erosion of confidence by foreign investors. The unique aspect of the oil transfer problem is not its size on a per country basis but its aggregate size in relation to world trade and the world economy. This larger size does act to limit the amounts which can be transferred in the form of goods and services in the short run. But even in the case of major single country transfers in the past, much of the initial transfer of claims was frequently financed by large capital inflows. This was the case, for instance, with both the French reparations after the Franco-Prussian War and the German reparations after World War I.

With the exception of some of the most seriously affected low income nations, a basic problem in terms of the inability of nations to transfer oil payments in the form of exports need not arise. Oil exporting countries have no reasonable choice but to place their financial accumulations in the oil importing countries as a group. Thus, for oil importers as a group an overall balance of payments problem will not arise. Over time as OPEC absorption of goods and services gradually increases, more and more oil payments will be transferred in terms of goods and services.

Collectively the oil importing nations will need to make net repayment of their oil debts only as OPEC begins to run an aggregate current account deficit. The fact that there are many, rather than only one, oil importing nations means that particular problems of ability to pay could arise for particular countries.

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But this is a problem that is within the power of the oil importing nations as a whole to handle. In terms of the basic economics of the issue there is no reason that the accumulation of substantial debt by oil importing nations to oil exporters need undermine either the solvency or the liquidity of oil importers as a group. Under any realistic assumptions the aggregate claims to pay off these accumulated debts in real goods and services will be spread over many years. The aggregate need to pay will occur only as the conditions which allow payment develop.

The fact that the projected accumulated debts are huge by historical experience does not make appropriate analogies of automatic national bankruptcy and bad debts. Nor by historical standards will the debt accumulations of individual countries necessarily be particularly large. The oil transfers represent an episode unique in historical experience in terms of magnitude compared with the size of the world economy, but when these are looked at on a per country basis, many examples can be found both of larger transfer requirements and larger accumulation of international indebtedness in relation to national economic aggregates.

Increased oil payments during 1974 and 1975 are running on the order of 2 to 3 percent of GNP for typical oil-importing nations. For some countries such as Italy and Belgium, the increased oil levy is in the range of 4 to 5 percent of total domestic expenditure according to OECD estimates. Viewed as an international levy, even on a per country basis, the increased oil payments are exceptionally large. For instance Fritz Machlup has calculated that the financial transfers associated with the German reparations after World War I, which stimulated so much international debate (as well as academic analysis of the transfer problem) in their peak year (1924) represented only 3.5 percent of national income and for the entire period of 1924 through 1932 averaged only 2.5 percent of national income. 1/

1/ Fritz Machlup "The Transfer Problem: Theme and Variation" in Fritz Machlup's International Payments, Debts, and Gold; Collected Essays, (New York: Charles Scribner Sons, 1964). There is considerable controversy over the monetary value of the payments in kind made over the earlier period.

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However, in terms of transfers of real resources or financial claims, there have been many instances of greater per country magnitudes. Hollis Chenery in his recent article in Foreign Affairs has pointed to the U.S. Marshall Plan aid after World War II in this context. Machlup's analysis indicates that the ratio of U.S. foreign payments to national income over this period was on the order of 3 percent, roughly the same as the oil tax for a typical country. As a portion of exports or imports, however, the U.S. transfers during this period were particularly large, representing some 60 to 80 percent of the average of U.S. exports and imports. By contrast, the increased oil payments during 1974 were on the order of 1/7 of world trade.

As another comparison, consider historical examples of large capital outflows. For Germany and France during the second half of the previous century, these averaged on the order of 1.5 and 3.5 percent of national output respectively and for the United Kingdom they were over 7 percent of Gross Domestic Product for the decade 1905-1914. 2/

2/ Estimates in this and the following paragraph are from Simon Kuznet's Modern Economic Growth (New Haven: Yale University Press, 1966, p. 331-334.

Likewise many countries have imported capital for long periods of time on a scale much larger than implied by the projections of typical countries' capital imports from the oil exporting countries, without undermining the economic vitality of the capital importing nation. It is sometimes forgotten that the United States was a substantial net importer of capital in the previous century. At its peak during the 1830's, the United States averaged capital imports equal to more than one percent of GNP. The large capital imports by Canada and Argentina are generally well known (between 12 and 15 percent of GNP). Between 1860 and 1900 Australian capital imports averaged between 3 and 10 percent of GNP. Similar ratios held for Norway, Sweden and Denmark during the latter part of the 1800's, and for Japan a peak ratio of 4 percent was recorded for the decade 1897-1906. 3/

Nor have such experiences been limited to the previous century. As Chenery has recently argued, it has been quite normal in the post-war period for developing nations to finance 20 to 30 percent of imports

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3/ All estimates in this paragraph are from Kuznets, ibid, pp. 331-334.

through foreign borrowing for periods of ten or twenty years or more and service on their external debt often rises to 20 or 25 percent of GNP without jeopardizing a country's economic prospects or ability to repay.

Even making extremely generous assumptions about rates of interest and the magnitude of OPEC financial accumulations, the ratio of interest payments on OPEC funds to world trade is unlikely to exceed 5 percent even at the peak of OPEC financial accumulations. Assuming amortization of the full debt to OPEC over a 20-year period would imply a maximum oil-related debt service ratio for the average country on the order of 10 percent or less.

While some early projections of OPEC financial accumulations foresaw the rate of increase continuing unabated over the next decade, recent projections foresee substantial reductions in the rate of OPEC financial accumulations within the next five years, if the current real level of oil prices is maintained, and suggest that by the early 1980's we might expect to see an approximate restoration of current account balance between the oil exporting and importing nations. Chenery's projections indicate that at their peak OPEC financial accumulations might reach a total equal in value to approximately 5 percent of industrial countries' marketable financial instruments (stocks, bonds, and short-term paper) and perhaps 2 percent of the market value of fixed assets. For the typical oil importing nation, the expected proportion of future OPEC ownership of the national economy would also be well within frequently observed historical ratios.

Recent projections by Edward Fried of Brookings and by the Morgan Guaranty Co. have been even lower, as are preliminary projections which I have recently completed. (A discussion of projections of OPEC accumulations is given in the annex to this paper). Based on recent work, it seems likely that the peak OPEC accumulations will fall in the range of $200 to $300 billion, in 1974 dollars, with my personal view being that the bottom half of this range is more probable.

If the oil importing countries were going to have to pay off all of this accumulated debt over a period of a year or two at some time in the early 1980's, then the bad debt analogy might apply. But this seems a most unlikely scenario. It is much more likely that the aggregate accumulated debt would begin to be paid off gradually (if at all) during the 1980's and that this would not present an impossible situation in terms of ability to pay.

If governments wish to help lessen the future burden that this repayment will place on their citizens, then they should encourage greater domestic savings and investment now, to generate the additional capacity to make future payments of real goods and services. In other words, the international dissavings caused by current account deficits should be offset by increased domestic savings and investment.

There is no need for such additional domestic investment to be financed directly by OPEC funds as has been implied in some recent analysis.

Given the high degree of fungibility of capital, the effects of capital imports on total domestic investment will depend, in many nations, much more on domestic entrepreneurship and national micro- and macroeconomic policies towards savings and investment than the particular form taken by investment flows. It might be objected that the previously mentioned historical episodes of successful experiences with large capital inflows are not appropriate analogies to the current accumulation of oil funds, because the historical flows were typically privately motivated and went directly into productive investment. Such objections do not seem appropriate, however. Even where the capital flows went directly into productive investment these investments were not always of the type which directly expanded future exports. Capital inflows reflect a future claim on a country's economic capacity to produce. For the nation to use these funds to expand capacity, it is not necessary that the capital imports be employed directly in real investment. Through the fungibility of capital, a placement in government securities, for instance, can lend indirectly to an expansion of private investment as a result of reduced pressures on the aggregate capital market. Even if inflows of oil funds were used to finance current consumption, this would not undercut the ability of the economy to make future repayments in real goods and services. It would, however, mean that a disproportionate portion of the real burden of transferring goods and services abroad to pay for current oil imports would be shifted forward to citizens in the future.

Thus, it would seem appropriate for governments to follow economic policies to encourage domestic savings and investment so as to offset the international dis-savings implied by the current account deficits which offset capital inflows and spread more evenly over time the burden of the real consumption cuts required by the oil price increases.

Let me conclude by summarizing briefly a few major points with respect to the oil transfer problem.

There is no logical need for large accumulations of financial assets by the oil producers to lead to international financial collapse or to insurmountable problems of debt service. For the group of oil importing nations as a whole the conditions which will require that accumulated debt be paid off (an OPEC current account deficit) also provide the means for paying off the debt.

The aggregate magnitude of the oil transfers is unprecedented in terms of the size of the world economy. On a per country basis, however, the capital inflows implied for the typical oil importing country are well within the range of historical experience. Even under the most liberal projections of total OPEC financial accumulations, these would represent only a small portion of capital markets and fixed assets in the oil importing nations.

To allow future debt repayments without shifting a substantial burden of the real cost of current oil payments to future generations, domestic savings and investment in the oil importing nations should be increased. Given the fungibility of capital there is no particular need to channel oil producer funds directly into equity and direct investments in order to accomplish this objective.

In the aggregate there is no overall balance of payments or recycling problem between oil exporters and importers. The oil producers have no sensible alternative to investing their current account surpluses in the oil importing nations as a group. The option of holding back oil production as an alternative to such investment does not make economic sense. At anything like the current price of oil, the expected rate of return on shifting substantial quantities of oil production forward in time should be strongly negative.

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Reductions in oil prices, while in the economic interests of both oil exporters and importers, do not present a way out of OPEC financial accumulations, which will be quite large by historical standards. As discussed in the annex to this paper, oil price reductions would reduce current account imbalances over the next several years, but they would be likely to lead to larger current account surpluses in the 1980's. In the absence of effective agreements for prorationing production among the oil exporters, the revenues of the low-absorbing major oil producers and hence medium-term current account imbalances will be extremely sensitive to price.

The large oil payments do present a number of problems for international financial relations among the oil importing nations. These include possible inconsistencies in current account objectives and the need for financial facilities to collectively internalize the risk of potential shiftability of oil funds and assure the availability of funds to countries following sound financial policies on terms which do not carry excessive risk premiums. Such problems present a strong challenge to international financial cooperation and management, but are not insoluble.

This conclusion, however, should not be used to underplay the seriousness of the economic effects of the oil price increases. At their peak the financial transfers associated with the much debated German war reparations after World War I were of no greater an order of magnitude relative to German GNP than are the increased oil payments in 1974 relative to world GNP, and while the German war reparations continued for a little over a decade, the economic costs of the oil price increases will continue as long as the real price of oil is maintained above competitive market levels. The arguments that continued oil deficits need not cause a financial collapse of the Western World should not be taken as a rationale for the view that the oil price increases are of little consequence. Short of war, the oil price increases, if maintained for any number of years, will probably cause the greatest misallocation of economic resources that the world has ever seen. And this misallocation could persist long after the trade positions of the oil exporting nations are restored to balance. While income transfers and current account imbalances would decline over time as the elasticities of energy demand and supply increase, the economic costs of misallocation of resources will increase.

Annex

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RECENT OPEC FINANCIAL ACCUMULATIONS PROJECTIONS

There has been a growing consensus among economic forecasters that the financial accumulations of the oil producers will not reach some of the huge figures predicted last year. Among the most publicized of last year's more pessimistic estimates were those made by the World Bank in July, which projected total OPEC financial accumulations of $653 billion for 1980 and $1206 billion for 1985. Estimates such as these were disquieting not only because the projected accumulations were so large but also because they were expected to continue through the 1980's.

Part of the reason for the large size of the World Bank estimates is that they were expressed in current rather than constant dollars. A deflation of the IBRD estimates to 1974 dollars reduces the $653 billion figure to approximately $400 billion. These initial World Bank estimates were, in addition, based on the most pessimistic assumptions of any of the studies concerning the responsiveness of oil import demand to increased prices.

In an article in the January issue of Foreign Affairs, Hollis Chenery, Vice President of the World Bank, presented an appreciably lower estimate of financial accumulations than the original IBRD results. His lower figure results from adjustments to the original IRBD estimates to take account of higher-than-anticipated absorptive capacity in OPEC countries. Chenery foresees the restoration of approximate current account balance by 1980, with OPEC financial accumulations at that time on the order of $300 billion in 1974 dollars.

Other recent estimates are also lower than those made last year. A recent estimate by Morgan Guaranty Trust Company projects total OPEC financial accumulations of $179 billion in 1980, with the accumulations peaking in 1978 at about $250 billion. Edward Fried, in a study recently published in Energy and U.S. Foreign Policy, estimated accumulations in 1973 dollars of $136 and $211 billion in 1980 and 1985 respectively (equal to $152.3 and $236.3 billion in 1974 dollars). His estimates assumed, a substantial reduction in oil prices toward levels which would maximize revenues for the oil exporters over the long run. Substantially lower oil prices would reduce the amount of long run shrinkage of the world oil market. Consequently, while lower prices would lead to lower OPEC revenues over the next several years because of the very low short run demand and supply elasticities for oil, over the longer run revenues would be substantially higher because of the higher long run elasticities of demand and supply.

Based on these projections, if the current real price of oil is maintained it seems likely that total OPEC accumulations by 1980 would fall in the range of $200 to $300 billion in 1974 dollars. Accumulations would be unlikely to prove substantially higher in 1985 than in 1980, and there is a good chance that the 1985 figures would even fall below the 1980 level.

My own preliminary projection suggest to me that total OPEC accumulations are more likely to fall in the bottom half than the top half of the $200 to $300 billion range.

In many projections it is assumed that the production cutbacks required to maintain high oil prices are shared roughly in proportion with projected productive capacity. Most analysts have argued, however, that if the cartel is to be maintained over time, a large proportion of the prospective excess capacity must be accepted by high reserve Persian Gulf producers. These also, of course, are the low absorbing countries. Unless a system of effective prorationing is worked out within OPEC, then maintenance of current real levels of prices would lead to a substantial reduction in low absorber revenues by the late 1970's and early 1980's, and hence also in the aggregate OPEC current account surplus.

My own preliminary projections indicate a range of financial accumulations on the order of $200 to $250 billion. The maintenance of current price levels in the absence of an effective prorationing agreement yields estimates in the lower part of this range, while substantial price reductions over the next several years, or the institution of effective prorationing, yield estimates toward the upper end of the range.

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FOR IMMEDIATE RELEASE January 30, 1975

RESULTS OF AUCTION OF 25-YEAR TREASURY BONDS

The Treasury has accepted \$0.75 billion of the \$2.3 billion of tenders received from the public for the 25-year bonds auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	7.89%
Highest yield	7.96%
Average yield	7.95%

The interest rate on the bonds will be 7-7/8%. At the 7-7/8% rate, the above yields result in the following prices:

Low-yield price	99.837
High-yield price	99.084
Average-yield price	99.191

The \$0.75 billion of accepted tenders includes 96% of the amount of bonds bid for at the highest yield and \$0.1 billion of noncompetitive tenders accepted at the average yield.

In addition, \$0.15 billion of tenders were accepted at the average-yield price from Government accounts and from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

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FOR IMMEDIATE RELEASE January 31, 1975

PARSKY APPOINTS SYMONDS
DEPUTY ASSISTANT SECRETARY FOR ENERGY POLICY

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Assistant Treasury Secretary Gerald L. Parsky has appointed Edward Symonds as Deputy Assistant Secretary for Energy Policy. Symonds is the first individual named to this post and joins Treasury from First National City Bank, New York, where he served as Vice President and head of the bank's energy economics staff.

"There is little question," Treasury Secretary William E. Simon noted, "that energy policy and economic policy are clearly related and Ed Symonds brings to the Treasury a unique understanding of energy economics needed to support U.S. participation in the International Energy Agency (IEA), as well as to guide us in working to meet President Ford's near- and long-term national energy goals."

Describing the duties of the Deputy Assistant Secretary for Energy Policy, Parsky said that Symonds "will be the focal point for Treasury's diverse energy responsibilities, including Treasury's role in the IEA, our continuing discussions with oil-producing, as well as oil-consuming countries on the economics of oil, and the development of policies that will support our national quest for greater self-sufficiency."

"As we move towards a meeting between the oil-producing nations and the consuming nations, this office will be called upon to assume a growing role in developing the U.S. position," Parsky said.

"Symonds," Parsky added, "will work closely with Congressional committees, state and other Federal agencies, industry, and public interest groups."

A graduate, cum laude, of Oxford University (1947), Symonds held a research position with the World Bank in Washington, D. C., before joining First National City Bank.

Symonds and his wife, Dr. Margaret Symonds, M.D., the former Miss Holness, reside with their four children in New Vernon, New Jersey.

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FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE GERALD L. PARSKY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
SENATE NATIONAL FUELS AND ENERGY POLICY STUDY,
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS
FRIDAY, JANUARY 31, 1975, 10:00 A.M. EST

Mr. Chairman and Members of the Committee:

It is a privilege to appear before you this morning to participate in this review of the President's economic and energy proposals. This morning, I would like to concentrate on certain aspects of the energy proposals. In so doing, however, I think it is important to view the entire legislative and administrative package as one entity. It is a balanced program aimed at reducing U.S. dependence on imported oil and increasing U.S. energy production.

Background

To understand our proposals better, I think it is important to explain our current energy situation. Oil has become an increasingly essential commodity throughout our economy. In recent years, however, our capacity to produce oil has declined. We are now dependent upon foreign sources for nearly 40 percent of our needs. In the fall of 1973, we saw what could happen as a result of this reliance on foreign supply. The oil embargo created major disruptions throughout our economy. Further, the current price of foreign oil has contributed significantly to both the inflation and the recession that the U.S. is now experiencing. The fact of the matter is that we have lost the ability to allow the market to determine the price of oil, and we have no choice but to look to OPEC for supply. To retain control over our destiny, we must first achieve the ability to be independent with respect to supplies of energy. The President's energy program is designed to do just that and more -- he has said that within this century, we should strive to be able to supply a significant share of the Free World's energy needs. In order to accomplish his goals, we will need to develop alternatives for imported oil and we will also need to reduce our total demands for energy of all kinds.

Concurrently, we must work with other consuming nations to coordinate our energy policies and also to cooperate financially as we seek to adjust to higher oil prices. In this process, it is important to remember that we are dealing with a long-term program, but that significant progress can be made on reductions in demand in the short term.

With this background in mind, I would like to briefly address three aspects of the program: the oil import fees, the energy taxes, and international initiatives, with both consumers and producers.

The Oil Import Fee

During the last week, many questions have arisen about the President's administrative action to impose additional license fees on imported crude oil and petroleum products. Therefore, I would like to clarify some points of controversy.

First, his action is specifically authorized under Section 232 of the Trade Expansion Act of 1962, as amended by the recently enacted Trade Reform Act of 1974. Section 232 provides that if the Secretary of the Treasury, after appropriate investigation, finds that petroleum is being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security, he should promptly advise the President of that fact. Unless the President determines to the contrary, he must "take such action, and for such time, as he deems necessary to adjust the imports of such article and its derivatives so that such imports will not threaten to impair the national security." This is indeed a broad grant of authority that allows the President to impose quotas, license fees, and other types of import restrictions.

After completion of an investigation within the Treasury Department, Secretary Simon reported to the President that crude oil and petroleum products were being imported into the United States in quantities and under circumstances threatening the national security. In making the investigation, information and ideas were sought from the Secretary of Defense, the Secretary of Commerce, and other Cabinet and agency heads in compliance with the specific provisions of Section 232. In particular, it should be noted that both the Secretary of State and the Department of Defense found the petroleum imports constituted a threat to the national security. I would be happy to provide the findings of the investigation and other documents relating to the investigation to you for the record.

In increasing the import fees, the President specifically directed that special attention be focused on the possible inequities that might befall particular regions of the country. Therefore, until Congress acts on the remainder of the President's program, the Federal Energy Administration's

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crude oil equalization regulations will ensure that the burden of import fees will be equally distributed nationally to assure similar crude costs to all domestic refiners. Additionally, as to refined products, the full import fee of $1.00 will be refunded during February, $1.40 of the $2.00 fee will be refunded in March, and $1.80 of the $3.00 fee will be refunded in April and thereafter until the President's total energy tax program is enacted. The product fee rebate thus provides complete protection against uneven impacts to areas like New England which is heavily dependent on product imports.

Energy Tax Package

A principal goal of the energy tax package is to reduce total consumption of oil and natural gas, which will help to reduce imports.

The package has three parts:

(1) An import fee increase ultimately settling at $2 per barrel on crude oil and products and a corresponding excise tax on domestic crude oil.

(2) Decontrol of crude oil prices and a Windfall Profits Tax.

(3) Price decontrol of new natural gas and the equivalent of the $2/bbl. oil excise tax on all natural gas, to curtail its use and discourage switching from fuel oil to natural gas.

This combination of fees, taxes and decontrol will raise the prices of oil, and gas and related products relative to other prices. That will discourage their unnecessary use, encourage the substitution of other energy sources, and induce the replacement of existing energy-using devices.

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$2 License Fee and Excise Tax

The $2 per barrel legislative increase in the license fee will raise the average price of imported crude oil and products by $2 per barrel. In the case of crude oil, that means an increase from around $11 per barrel to $13 per barrel. Domestic crude would also sell at about $13 per barrel, and the excise tax of $2 would leave the effective price to domestic producers also at $11 per barrel.

The import fees will bring in revenues of $4.0 billion in calendar year 1975 and $4.1 billion in 1976 and the excise tax will raise $4.8 billion in 1975 and $7.2 billion in 1976.

Decontrol and Windfall Profits Tax

Our system of price controls is seriously counter-productive to our need for greater domestic supplies. An illustration of how controls serve to discourage development of additional supplies can be seen in connection with secondary and tertiary recovery processes, which are used to stimulate additional production after original production has declined. Those processes are costly and part of our production decline is attributable to the fact that they are uneconomic at controlled prices. Money will not be invested to produce more controlled oil at $5.25 per barrel if it can be invested in producing uncontrolled oil at

$11 per barrel, or in some completely unrelated business at a higher rate of return. By stimulating secondary and tertiary recovery methods, estimates are that we can achieve an increase of one million barrels per day within three to four years.

We believe the combination of price decontrol and the Windfall Profits Tax is a workable solution to the problem. In 1975, we estimate that a producer of controlled oil would receive $11 per barrel after decontrol (net of the $2 excise), or an increase in price of $5.75 per barrel ($11.00 - $5.25 = $5.75). The Windfall Profits Tax proposed would average $4.53 per barrel, reducing the producer's net price increase to $1.22 per barrel. That $1.22 translates into about 76¢ per barrel after tax.

After decontrol, the price for all oil will be the same, thus eliminating all the inefficiencies of the two-tier pricing system. Producers of uncontrolled oil will begin to pay a windfall tax on the increased prices they have enjoyed for more than a year. As a result, they will pay $2.81 per barrel more tax on those increased profits than they paid last year. Producers of controlled oil will begin to receive the same increased prices but will be permitted to keep only 76¢ of that increase. Both controlled and uncontrolled oil will receive the same prices and pay the same taxes.

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Decontrol of New Natural Gas and Excise Tax

With respect to natural gas, shortages last year forced major curtailments of supplies to many industrial firms and denial of service to many new residential customers. Curtailment and denials are much greater this year and are causing not only extra costs and hardships, but, in many cases, business closedowns and loss of jobs.

New natural gas goes primarily into intrastate, uncontrolled markets where prices range around $1.00 per thousand cubic feet (m.c.f.). Gas in the interstate market averages about 30¢/m.c.f. The result is that interstate supplies are insufficient, and the energy gap in nonproducing states is made up with imported oil, which on a BTU equivalent basis costs about $2.00/m.c.f., and with imported liquefied natural gas at $1.80/m.c.f. Deregulation will permit new domestic gas to flow into the interstate markets which will mean fewer curtailments.

Whether or not new natural gas is deregulated, the President proposes an excise tax of 37¢/m.c.f. on natural gas. That is equivalent, on a BTU basis, to the proposed $2.00 excise tax on oil and will prevent fuel oil users from switching to gas. It will also bring the average interstate price close to the market clearing price (the price at which supply and demand will coincide), and end the careless use of this fuel by those for whom it is cheap at present prices.

International Initiatives

These proposals, coupled with the other parts of the President's program finally brings us a comprehensive and meaningful domestic energy policy which will provide the basis to work toward solutions with both consuming and producing nations. Turning to the international aspects of the energy problem, I think all of us are 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. Unconstrained bilateralism, artificial restrictions on supplies of goods or any efforts to distort trade and investment must be avoided by consumers and producers alike.

The underlying basis of our approach is that a coordinated response to the oil problem is needed. Our 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.

With respect to our cooperation with the consumers, we believe that current oil prices require that we combine energy and financial policies if we are to maintain economic stability. Oil consuming countries have made considerable progress in concerting their energy policies. Last fall agreement was reached among a number of consuming countries on the International Energy Program launched at the Washington Energy Conference of February 1974. An unprecedented emergency program to limit individual and collective vulnerability to supply interruptions by OPEC countries has been developed. Under this arrangement, participating countries have agreed to:

-- Build a common level of emergency self-sufficiency, which would allow them to live without imports for a certain period.

-- Develop demand restraint programs to cut oil consumption by a common rate without delay if necessary.

-- Allocate available oil to spread shortfalls evenly among participants.

Concrete plans are also now being laid to coordinate programs of energy conservation and longer term development of new sources of supply. As part of this effort, next week I will attend meetings of the International Energy Agency (IEA) in Paris in an effort to assimilate the views of the member nations and prepare for a conference with the producers. We are seeking to reach agreement on cooperative efforts to develop alternate sources of energy as well as to achieve energy conservation. The essence of our position with regard to other consuming nations can be succinctly described:

-- 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, $25 billion 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.

These ideas call for a forthright effort by the world's major industrial countries to resolve the international energy crisis. I have been encouraged by the recent developments and anticipate considerable progress this month.

At the same time that our policy for financial and energy cooperation among the consumers has been evolving, we have been undertaking an intensive program of economic cooperation with the oil producing countries in the Middle East. This has been done both through the establishment of

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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. Each of the oil producing countries differs in ability to absorb oil revenues and in political goals with respect to oil. Such basic differences have and will continue to result in differing forms of cooperation with the United States and other consuming countries.

Financial Aspects of Oil Situation

I believe this is a comprehensive approach to our energy problems. 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 can alter this situation, there is little prospect that oil prices will come down.

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 rather than its financial repercussions that is the real source of trouble in the world economy.

There is growing concensus among economic forecasters that the financial accumulations of the oil producers will not reach some of the huge figures predicted last year. Some of these initial projections of accumulations ranged as high as over a trillion dollars by 1985. These predictions, however, tended to underestimate substantially both the responsiveness of oil supply and demand to high oil prices over the long run and the capacity of the oil exporting countries to accelerate their imports of goods and services. Recent projections of OPEC financial accumulations through 1985 have been on the order of \$200 to \$300 billion, as measured in 1974 dollars. They also suggest that, by the late 1970s or early 1980s, the process of accumulation may have been substantially completed with the oil exporters collectively beginning to run a current account deficit. Indeed, one private projection suggested recently that this could occur by 1978.

In the meantime, it is vital that the President's domestic energy program be enacted. Success in meeting our objectives will enable us to seek cooperation with our allies and avoid confrontation with the producing nations.

All of our initiatives are really a response to the economics of oil. They should not be regarded as confrontational. We really have no choice but to seek to insure the viability of our economies and the stability of the international financial order. These essential interests are not in conflict with those of the oil exporting countries. We continue to support the very legitimate aspirations of the oil producing nations to accelerate their own economic development, establish their industrial and agricultural bases, and improve the living standards of their peoples. We do believe, however, they can achieve these development objectives on a much more secure basis at a substantially lower level of oil prices.

Conclusion

The energy and economic problems we now face are multi-dimensional. They require a balanced approach, and I believe the President's program offers such an approach -- one which will allow us to maintain our traditional strength and leadership role in the world.

We in the Treasury Department look forward to working with the Congress in implementing a complete and meaningful national energy policy.

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PARSKY APPOINTS SYMONDS
DEPUTY ASSISTANT SECRETARY FOR ENERGY POLICY

Assistant Treasury Secretary Gerald L. Parsky has appointed Edward Symonds as Deputy Assistant Secretary for Energy Policy. Symonds is the first individual named to this post and joins Treasury from First National City Bank, New York, where he served as Vice President and head of the bank's energy economics staff.

"There is little question," Treasury Secretary William E. Simon noted, "that energy policy and economic policy are clearly related and Ed Symonds brings to the Treasury a unique understanding of energy economics needed to support U.S. participation in the International Energy Agency (IEA), as well as to guide us in working to meet President Ford's near- and long-term national energy goals."

Describing the duties of the Deputy Assistant Secretary for Energy Policy, Parsky said that Symonds "will be the focal point for Treasury's diverse energy responsibilities, including Treasury's role in the IEA, our continuing discussions with oil-producing, as well as oil-consuming countries on the economics of oil, and the development of policies that will support our national quest for greater self-sufficiency."

"As we move towards a meeting between the oil-producing nations and the consuming nations, this office will be called upon to assume a growing role in developing the U.S. position," Parsky said.

"Symonds," Parsky added, "will work closely with Congressional committees, state and other Federal agencies, industry, and public interest groups."

A graduate, cum laude, of Oxford University (1947), Symonds held a research position with the World Bank in Washington, D. C., before joining First National City Bank.

Symonds and his wife, Dr. Margaret Symonds, M.D., the former Miss Holness, reside with their four children in New Vernon, New Jersey.

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