U.S. Treasury Dept.

Press releases.

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

587-706

FOR IMMEDIATE RELEASE April 1, 1975

TREASURY ANNOUNCES 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 Modification of Dumping Finding on tuners (of the type used in consumer electronic products) from Japan, with respect to Matsushita Electric Industrial Company, Ltd., Matsushita Electric Trading Company, Ltd., and Victor Company of Japan. Notice of this action will appear in the Federal Register of Wednesday, April 2, 1975.

For the reasons stated in the "Notice of Tentative Determination to Modify or Revoke Dumping Finding" published in the Federal Register of December 12, 1974, with respect to Matsushita Electric Industrial Company, Ltd. and Matsushita Electric Trading Company, Ltd., and in the Federal Register of January 22, 1975, with respect to Victor Company of Japan, tuners from Japan are no longer being, nor are likely to be, sold in the United States at less than fair value by these three companies.

During the period January through October 1974, imports of tuners from Japan were valued at approximately $6,300,000.

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

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FOR IMMEDIATE RELEASE April 1, 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 $5,500,000,000 , or thereabouts, to be issued April 10, 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 January 9, 1975, and to mature July 10, 1975, (CUSIP No. 912793 XD3), originally issued in the amount of $2,304,625,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,800,000,000, or thereabouts, to be dated April 10, 1975 and to mature October 9, 1975, (CUSIP No. 912793 XS0).

The bills will be issued for cash and in exchange for Treasury bills maturing April 10, 1975, outstanding in the amount of $4,706,940,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,251,350,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Monday, April 7, 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 April 10, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 10, 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

FOR IMMEDIATE RELEASE APRIL 1, 1975

U.S. RANKING IN INVESTMENT AND IN REAL ECONOMIC GROWTH IS AMONG LOWEST OF INDUSTRIALIZED COUNTRIES, TREASURY STUDY SAYS

The United States ranking in real economic growth is among the lowest of the industrialized countries because a relatively low share of its output is being allocated to investment, according to a study released today by Treasury Department staff economists H. I. Liebling and J. Jaakson.

This lag in U.S. investment over the past 13 years, the economists said, has "contributed to relatively lower rates of advance of productivity and national output."

Liebling and Jaakson said "this disparity in investment has effectively lowered rates of advance in living standards of the average consumer in the United States, created shortages in basic materials industries during periods of economic expansion and added substantially to the inflationary consequences of high employment in recent years."

The Treasury economists indicated also that the falling share of U.S. resources allocated to investment has "limited job opportunities" because "had the growth of plant and equipment exceeded that of the labor force, more jobs would have been required to utilize that increased capacity."

They concluded that the policy implications for the U.S. point towards encouragement of capital formation by minimizing tax disincentives, use of accounting methods which adjust earnings for replacement cost of capital and elimination of tax barriers to the flow of capital into productive uses.

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Attachment
Review of Economic and Financial Developments, Treasury Department, March 21, 1975

WS-265

Review of
ECONOMIC AND FINANCIAL DEVELOPMENTS
March 21, 1975

INVESTMENT, PRODUCTIVITY AND GROWTH IN MAJOR INDUSTRIALIZED COUNTRIES

Over the past decade and more, the U.S. share of its output allocated to investment has been below that of other major industrialized nations and thereby contributed to relatively lower rates of advance in productivity and national output.

This disparity has effectively lowered rates of advance in living standards of the average consumer in the U.S., created shortages in basic materials producing industries during periods of economic expansion and added substantially to the inflationary consequences of high employment in recent years.

The disparity also has limited job opportunities in the sense that had the growth of plant and equipment exceeded that of the labor force, more jobs would have been required to utilize that increased capacity.

Investment as Percent of Real National Output 1960-73*

	Total Fixed**	Nonresidential Fixed
U.S.	17.5	13.6
Japan	35.0	29.0
West Germany	25.8	20.0
France	24.5	18.2
Canada	21.8	17.4
Italy	20.5	14.4
United Kingdom	18.5	15.2
11 OECD Countries (1960-72)	24.7	19.4

* OECD concepts of investment and national product. 1973 estimated.
** Including residential.

The U.S. share of total national output devoted to so-called fixed investment averaged 17.5% during 1960-73. This share was lower than in any of the 11 major industrialized nations for which comparable information was developed in this analysis. It compared with Japan's peak share of 35.0%, West Germany's 25.8%, and France's 24.5%. But, even at the lower end, the shares of the United Kingdom at 18.5% and of Italy at 20.5% were higher than in the U.S.

On the average, the 11 OECD countries allocated

24.7% of their output to fixed investment -- seven percentage points more than in the U.S., as shown in the table on page 1.

The investment shares noted above include residential buildings, as well as nonresidential fixed capital. Only the latter might be considered by some as contributing to productivity, whereas residential purchases might be considered as consumption expenditures. Figures on both bases are shown in the table.

(In addition, the OECD concept includes nondefense government outlays on machinery and equipment in private investment for which a special adjustment needs to be made in the U.S. national accounts for comparability. National output is defined in these computations as "gross domestic product" -- a somewhat different output measure than gross national product but which conforms with OECD useage.)

A ranking of countries with respect to investment ratios to GDP and real growth rates during 1960-73 is shown in the table on this page. A strong correlation between high ratios and high growths is indicated.

Investment Ratios and Growth
Rates of Real Output, 1960-73*

	Investment Ratio		Output Growth Rate	
	Percent	Rank	Percent	Rank
Japan	29.0	1	10.8	1
W. Germany	20.0	2	5.5	3
France	18.2	3	5.9	2
Canada**	17.4	4	5.4	4
U.K.**	15.2	5	2.9	7
Italy	14.4	6	5.2	5
U.S.	13.6	7	4.1	6

*Data estimated for 1973.
**Data applies to 1961-73 and are not strictly comparable to data presented for other countries.

(The respective standings of these countries should be considered approximations because prices of investment goods vary internationally. Since prices are used as weights to value output, differences in relative prices contribute to differences in the investment shares.)

Due in large part to higher shares of investment, productivity increases of these other industrialized countries surpassed those of the U.S. in recent years.

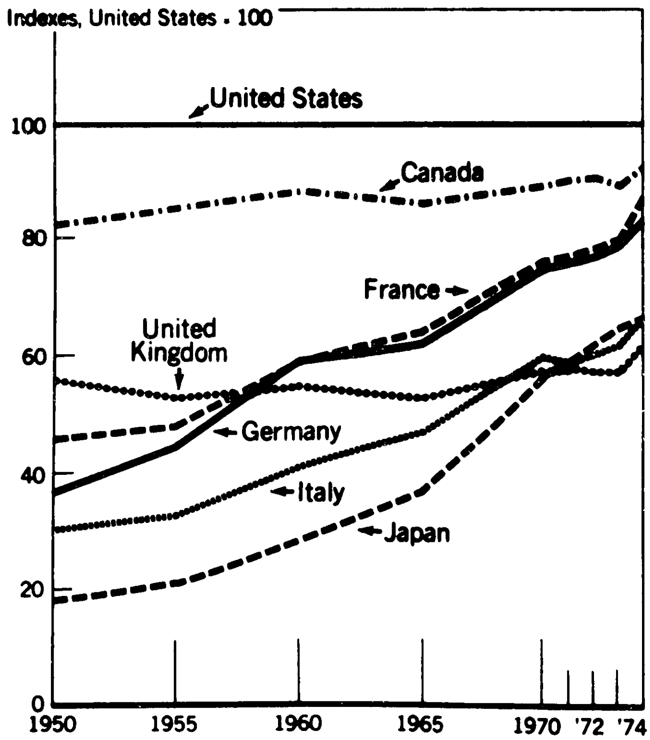
One such measure of productivity -- real output of total goods and services per employed civilian -- shows that productivity increases from 1960 to 1973 have exceeded that of the U.S. by an average annual rate of 6.7 percentage points in Japan, 3.2 percentage points in Italy, and 2.4 percentage points in France.

As a result, the absolute level of superiority of U.S. productivity is rapidly diminishing, relative to other major industrialized countries. This is shown in the chart.

- Japan has narrowed this superiority from 18% of U.S. productivity in 1950 to 28% in 1960, and to 65% in 1973.

- Italy has narrowed the gap from 30% in 1950 to 41% in 1960, and to 62% in 1973.

Real Output per Employed Civilian
1950-'74



- France and West Germany have improved their relative performances by rising to four-fifths of the U.S. level in 1973, as compared with three-fifths in 1960.

Lower rates of productivity gain in the U.S. relative to other countries is also registered in the manufacturing sectors of these economies. The rates of gain in manufacturing are larger than for total national output. But, here, too, the pattern of declining superiority of the U.S. is clearly portrayed. (See table on next page.)

Other factors than fixed capital formation, of course, contribute to productivity and real GDP growth. Among these are the growth in the employed labor force, age of the stock of capital, enhanced labor and managerial skills, education, etc. Some studies have given greater importance to these factors than to rates of investment. Furthermore, high rates of growth in capital stock are much easier achieved -- and hence productivity enhanced -- where that capital stock is low relative to output.

Granted that other factors than physical investment contribute to growth, there would still remain large benefits to productivity resulting from larger growth in the capital stock.

Productivity Growth, 1960-1973
(Average Annual Rate)

	GDP per employed person	Manufacturing output per manhour
United States	2.1	3.3
Japan	9.2	10.5
W. Germany	5.4	5.8
France	5.2	6.0
Canada	2.4	4.3
Italy	5.7	6.4
United Kingdom	2.8	4.0
11 OECD Nations	5.2*	6.1

*Average for 6 OECD countries listed.

The economic policy implications to attain greater productivity growth from this source would require some alteration in our consumption and saving patterns. In one way or another, the incentives for investment would need to be encouraged. The increase in the investment tax credit now under public consideration is a step in this direction.

OFFICE OF THE SECRETARY OF THE TREASURY
OFFICE OF FINANCIAL ANALYSIS

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

FOR RELEASE WEDNESDAY A.M. April 2, 1975

BOSTON BANKER NAMED TO DEBT MANAGEMENT POST

Secretary of the Treasury William E. Simon today announced the appointment of Ralph M. Forbes, a Boston banker, as Special Assistant to the Secretary for Debt Management. He will be sworn into his new post in ceremonies in the Secretary's office Friday.

In his new position, Forbes will have a major responsibility in the formulation of policy for financing the public debt.

In the capacity of Special Assistant to the Secretary, Forbes also will serve as Vice President of the Federal Financing Bank, and as coordinator of Federal agency financing.

A native of Sherborn, Massachusetts, Forbes joined the First National Bank of Boston 11 years ago, shortly after graduating from Harvard College with an A.B. degree. Beginning as a trainee at the bank, he was subsequently assigned to the investment division, where he progressed to investment officer, assistant vice president, and, in December 1971, vice president.

As vice president, he had responsibilities relating to money market transactions, with emphasis on U.S. Treasury and related debt instruments, as well as state and local government obligations. He participated also in long-range planning, funding and general policy decisions of the bank.

He is married to the former Tally Saltonstall. The couple has four children, Suki, James, Heidi and Laura, and live in Milton, Massachusetts.

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WS-266

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

FOR RELEASE 6:30 P.M. April 1, 1975

RESULTS OF AUCTION OF 20-MONTH TREASURY NOTES

The Treasury has accepted $ 1.5 billion of the $3.8 billion of tenders received from the public for the 20-month notes auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield 6.95% 1/
Highest yield 7.19%
Average yield 7.15%

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	100.234
High-yield price	99.865
Average-yield price	99.926

The $ 1.5 billion of accepted tenders includes 19 % of the amount of notes bid for at the highest yield and $0.1 billion of noncompetitive tenders accepted at the average yield.

No tenders were received from Government accounts or from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

1/ Excepting 8 tenders totaling $1,160,000.

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

FOR IMMEDIATE RELEASE April 1, 1975

ALTERNATE U. S. EXECUTIVE OF IDB IS SWORN IN

Yan M. Ross was sworn in today as Alternate Executive Director of the Inter-American Development Bank. The oath was administered by Secretary of the Treasury William E. Simon at the main Treasury building.

Ross had served since May 1970, as minority counsel to the House Banking and Currency Committee. Previously, he spent nearly three years as an Air Force officer trainee, receiving a 1st Lieutenant commission in May 1970. Earlier, he was an administrative officer trainee for the Central Intelligency Agency, from July 1967 to February 1968, and had done legal research work in Brazil during school vacation periods in 1964 and 1965.

A native of New York City, Ross graduated from Princeton University with an A.B. degree in 1964, and from Yale Law School, LL.B., in 1967. He is married to the former Kathleen Browne, a national representative of the Girl Scouts of America. The couple has two children and resides in Bethesda, Maryland.

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Hello, I'm delighted to be with you today. I like your city, your sunshine,and your people. I also like the subjects I've been asked to talk about -- which are women and Savings Bonds and the economy. That's a nice, wide variety.

Variety is what women are all about. And "all about" is where we are these days.

We are mopping kitchen floors, raising families, living in communes, robbing banks, trying for the executive suite, and in general being as good, bad, smart, silly and cantankerous as men.

Fifty percent of women between 18 and 65 are currently working. We're as well educated as men but, on the average, we earn only three-fifth's of a man's salary. There are many reasons for this and one -- the main reason -- is that many women work only on a part-time basis. For many women, jobs are secondary to their careers as wives and mothers.

Remarks by the Honorable Francine I. Neff, Fort Worth Women's Club, Fort Worth, Texas on April 2, 1975

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Politics is one area that attracts women. Mrs. Ella Grasso is now Connecticut's governor while Mary Ann Krupsak is the Lieutenant Governor of New York. Five new women entered Congress this year, to join the dozen already there. A good friend of mine, Mary Louise Smith, is the first woman chairman of the Republican National Committee. And a few days ago, I attended a reception honoring Mrs. Carla Hills, our new Secretary of Housing and Urban Development, and the third woman cabinet officer in history.

In other fields, American women are scoring other gains. Congress outlawed credit discrimination based on sex last year. The Bank of America settled a class action suit on behalf of its female employees, which will mean about $10 million in additional income to women. And in education, the number of women students in medical schools is double what it was three years ago.

I've been talking about working women -- and we automatically think of paid jobs. But I'd like to put in a good word for volunteers. They are terribly important to our society. Some 70 million people have volunteer jobs, and they contribute an estimated $50 billion a year to America's "gross national product."

I am a wife, mother and dedicated believer in the value of volunteers. For the first quarter century of my adult life, I volunteered for everything from the PTA to the GOP. I was privileged to learn many techniques

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and skills this way, because a willing volunteer can often work with top people. I personally feel my route to a career was via the way of the volunteer.

Today, I work full time as the United States Treasurer and as National Director of the Savings Bonds Division. I am heartened to know that 99 percent of the Bond selling program is accomplished by volunteers. I suspect -- I hope -- that some of you are among those workers in our program.

Our National Savings Bonds goal for 1975 is 6.8 billion dollars in bond sales, and at least 2.4 million new or increased savers.

Here in Tarrant County, the 1974 bond sales total was $19,255,000 -- or 107 percent of your goal. Congratulations!

I'm happy to tell you that in our United States Savings Bonds program we have leadership from the top. I was privileged to visit with President Gerald Ford a few days ago. He is a regular Savings Bonds buyer, and he told me that this year he is <u>increasing</u> his payroll deduction.

I certainly don't intend to tell you all the advantages of Savings Bonds today. You probably already know what they are. Bonds are a safe, convenient, painless way to save, with a very attractive 6 percent interest rate. A banker friend of mine has added up figures which show that over the last 5 years $75 invested monthly in bonds is worth more today than the same amount invested in stocks on the Moody's Industrial Index.

Bonds also have tax advantages which can increase that 6 percent rate substantially.

Finally, Savings Bonds help the nation. They put more of the Federal debt into the hands of long term savers. They remain outstanding, on the average, for six years, while other marketable instruments turn over in three years or less. Almost a quarter of our publicly held national debt is in the form of Savings Bonds.

So, our Bonds are good for America and good for Americans. Sales of series E and H bonds were at a 29-year high in 1974. And, so far this year, sales are even higher. In this period of inflation and recession, the proven performance of these United States Savings Bonds is very appealing.

Let's talk a little more about inflation and recession, and some of the other shocks that have hit our economy this past year.

Since last April --

-- We have experienced the highest rate of inflation in our peacetime history.

-- Our economy is in the worst slump in years.

-- Oil prices have quadrupled.

-- And $100 million of the world's wealth has been transferred to a small bank of developing nations.

These stories all made the headlines. But another story -- equally as important -- did not. And that is the story of how well our economic system has operated under conditions of extraordinary stress.

Throughout 1974, the prophets of doom announced that our Ship of State was halfway under water and sinking fast.

That isn't true and it won't be true. America is alive and well, and both America and I will be here to welcome my as-yet-unborn grandchildren -- who, incidentally, will be Texans as my daughter had the good sense to pick a super son-in-law for me from your state.

Let's look at the record of what the doubters have predicted, and then let's see what actually happened.

-- Prices on foreign oil jumped in 1974, and it was said that the international financial system might collapse, as massive sums of money were transferred.

In fact, the financial institutions responded with considerable skill. OPEC funds were rather widely disbursed. And the oil comsuming nations are presently working on new international agreements for future emergencies.

Further, new oil discoveries outside of the OPEC nations, and new production in the United States and elsewhere will eventually result in lowered prices. As Treasury Secretary William Simon says, it's a question of when, not if.

For another example of how the sky didn't fall, let's look at gold sales. Late last year, Americans were allowed to buy gold for the first time in decades. The predictions were that we were in for a great new gold rush.

This did not occur. When I checked a few weeks ago, gold was selling below the quoted prices of December 30.

For a final example, let's consider the fears of some people that we are heading into another Great Depression.

Of course, we have a recession, but it does not come close to the conditions of the 1930's. Unemployment figures in 1975 are only about a third of the 1930's figures, and there are such safety nets as Social Security, medicare, unemployment payments, and food stamps.

Treasury Secretary William Simon believes the present economic slide will bottom out during the middle months of this year. As he put it the other day, he sees "patches of blue in a gray, wintry sky."

Our free enterprise system still functions, and the laws of supply and demand still work. But, too often it seems to me, we tend to doubt our institutions and not our doubters.

Since I am a strong advocate of the free enterprise system, people sometimes ask me, "If this system works so well, why is there such a high rate of inflation and unemployment?"

There are several reasons.

We fought a war in Viet Nam and charged it.

We sustained world-wide crop failures.

We suffered an oil embargo, and oil prices today are high.

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But more fundamentally, we have for years abused our economic system. The fact that it still functions so well is a great tribute to its basic strength.

Our growing Federal government puts enormous demands on the economy.

The proliferation of government regulations burdens both business and the consumer. Federal regulations, for example, added $320 to the price of a 1974 car.

And, our national habits of encouraging consumption and federal spending at the cost of savings and investment is a very serious concern. Capital investment in the United States in recent years has been the lowest of any industrial nation in the free world.

Secretary Simon and other government officials are working to turn some of these trends around. They feel, and I agree, that

-- We must restore greater discipline to our financial affairs.

-- We must lighten the hand of government in many areas.

-- And we must encourage savings, investment and capital formation.

Finally, we must turn away from the doomsayers. Despite our problems, we have an incredibly strong nation, both in spirit and in material goods. Now we need to speak to the good in each other.

But we need to do more than speak -- we need to act.

As parents, we need to instruct our children in economics. We must transfer to them our knowledge of the supply and demand system; our belief in the free marketplace, and the legitimacy of profit.

As business people, it is incumbent on us to take our knowledge and expertise into the classrooms, by actually serving as speakers and lecturers, and by seeing that our elected school board members transmit the need for sound economic education to the teachers.

As citizens, we must demand that the news media make some effort to understand our economic system.

As voters, we must make certain that our elected officials understand that good economics is good politics.

As Americans, we must build on our strengths once more. Let us look back at our 200 years of history. Then let us look forward with confidence as we go about doing our jobs, raising our families and helping society.

Thank you.

I am delighted to be here today. I love being back in the Southwest and I always enjoy meeting members of the Federal family, even though I joined that family rather recently.

I have worked most of my adult life -- although I never received a paycheck until last year. However, after 25 years as a volunteer for many, many causes, I began a new career as a payroll relation of Uncle Sam when I became Treasurer of the United States last summer.

During my 9 and 1/2 months on the job, I have met hundreds of Civil Service people in Washington and across the country. And I am genuinely impressed by most of you. You work hard, you work smart, and you have an enormous impact on this Nation. I'm honored to be one of you.

As the United States Treasurer, and the National Director of the Savings Bonds Division, I have a number of jobs to fill my 10-hour day. Today, I'd like to discuss two of them: the Bicentennial and the "buy bonds" programs.

As Chairman of the Treasury Department's Bicentennial Programs, I am involved in some exciting projects to celebrate our Nation's birthday.

Remarks by the Honorable Francine I. Neff, United States Treasurer, to the Federal Business Association, Fort Worth, Texas, April 3, 1975.

As you may know, our Main Treasury Building in Washington, D. C., is itself a designated National Historic Landmark. Within this lovely old building, the 3rd oldest office building in the city, we are planning a moveable "Museum without walls" that will line the second floor halls with an exhibit of rare and unique historical materials.

Each division within Treasury is currently reviewing its own materials of historic value and interest, and we plan to trace the development of our Federal Government via Treasury and its role past and present.

In addition, we plan to change the present "Cash Room" of Main Treasury from its very drab role as a place to cash checks back into its original, Cinderella costume as a lovely, ceremonial-type room for receptions and other occasions.

The so-called "Cash Room" is really a beautiful marble room with wrought iron balconies that was built around the time of the Civil War. At the time it was built it was considered the most expensive and beautiful public room in Washington. We're going to make a mighty try to recall old glories and to create the much-needed formal receiving room.

Of course, most Bicentennial activities will take place outside of the Treasury Building. We will be issuing coins, medals, philatelic cards and so on, and the newly designed quarters, half dollars and dollars will be circulating by mid-summer.

In addition, the Treasury Department will commemorate a number of historic customhouses throughout the country with appropriate ceremonies. And we will join other agencies in sponsoring a number of projects. I'll mention two of them: the Bicentennial Youth Debates and the American Freedom Train.

The Youth Debates are a nationwide project supported by the National Endowment for the Humanities and the Speech Communication Association. They will begin this Fall and plans are to involve high schools, junior colleges, and four-year colleges. Treasury will assist in awarding Bicentennial coins or specially designed Savings Bonds to the winners.

The American Freedom Train is a major project of the American Freedom Train, Incorporated. The present plans call for a 24-car, steam powered train to visit all 48 states during 1975 and 1976. It will carry hundreds of exhibits to make American history come alive -- complete with the sights, sounds and smells that are evocative of our 200 years as a Nation.

The Treasury Department is the nation's second oldest Federal department and we have a number of exhibits on loan to the Freedom Train, including old forms of currency, old World War I & II Bond posters and so on. Present plans call for the Freedom Train to visit your area next February.

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Texas has a long and rich history, and I know you must be planning many exciting state and regional projects for the Bicentennial. I hope to find out more about a few of them during my stay in Fort Worth.

My duties as Chairman of the Treasury Bicentennial Program will intensify later this year. Right now, I'm spending much of my time fulfilling my duties as National Director of the United States Savings Bonds Division. So let me tell you a little about that.

Most of us grew up with Savings Bonds -- or War Bonds -- or Defense Bonds -- or even with their predecessor, the Baby Bonds of the late 1930's. I sold War Bonds as a youngster during World War II, and I imagine some of you did too.

Most of us very well know the personal advantages of buying bonds.

Savings Bonds are a safe, secure, and very convenient way to save -- especially when your yearnings exceed your earnings, and you find it hard to put something away for a rainy day.

With their 6 percent interest rate, bonds are attractive financially. A banker friend of mine has added up some figures and discovered that if you put $75 monthly into United States Savings Bonds for the past six years, you would be further ahead today than if you invested the same amount in over the counter stocks listed on the Moody's Industrial Index.

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Furthermore, bonds have attractive tax aspects. You pay no state and local taxes and you pay federal taxes on the interest only when you redeem the bonds -- in other words, you can defer federal taxes on Savings Bonds until its advantageous for you to cash them in.

Beyond the financial aspect, Bonds are a vote for America's future -- a way to say "yes" to America. Most of us find it hard to say, "I love America". But we can buy bonds -- "Take Stock In America" -- and that says it all right there.

In addition to these reasons, I am now beginning to appreciate the important role Savings Bonds play in our nation's debt structure.

Almost a quarter of the publicly-held portion of the national debt is in the form of Series E and H Bonds. And this 24 percent is far and away the most stable part of our debt. In fact, E and H Bonds remain outstanding, on the average, for more than six years, as compared to less than 3 years for other marketable instruments.

A quick turnover in the Federal debt is unsatisfactory for at least two reasons.

First, when the debt becomes too liquid, or "spendable", it can be inflationary.

And second, the cost of refinancing a rapidly maturing debt is difficult and expensive.

So you can see why Savings Bonds -- which remain outstanding for so long -- are the sturdy backbone of the government's long-term debt. This is true no matter what

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you hear about "X" number of bonds being cashed in quickly.

Besides <u>holding</u> bonds, our buyers are buying <u>more</u>. 1974 was the best sales year in 29 years, and 1975 is starting off even better.

As we go into our "Take Stock in America" Savings bonds selling campaign, we are counting on the almost 2,900,000 men and women in the Federal family to lead the way. And your leadership is coming right from the top.

I was privileged to visit the White House and chat briefly with President Ford a few days ago. He has been a bond buyer for years, but he told me that <u>this</u> year he is increasing his regular payroll deduction.

I'm pleased at this, and I hope many of you follow his example. <u>I</u> would like to, but I'm one of only two people in the entire country who are forbidden, by law, to buy Savings Bonds. My boss, Secretary of the Treasury William Simon, is the other person. But legislation is going forward to change this. Very soon now I should be able to join you at the payroll savings counter.

In the meantime, I will continue urging groups like yourselves to do two things for the bond program:

-- to buy bonds yourself

-- And to volunteer your time and talents to the bond program.

Do you know, 99 percent of the people who work for Savings Bonds are volunteers? We couldn't move without you.

We have a true grassroots program and its succeeds only because of all of the thousands of willing, wonderful volunteers who say "yes" to America in this way.

We can't offer our Savings Bonds volunteers money. We can't offer you fame, or advancement or other tangible awards. All we can say we, need you. Your country needs you. And it is the glory of America that you, and thousands like you, respond.

I am pleased that, today, I can personally thank you on behalf of President Gerald Ford and Treasury Secretary William Simon -- and the American people -- for your work in support of United States Savings Bonds. To Peggy Huffman -- who is the Federal Employees Savings Bonds coordinator, to S. J. Stovall, Program Director of the Federal Business Association, and to Darwin Wilder, President of the Federal Business Association -- our special thanks.

Now I'd like to end on a lighter, Springtime note. I'd like to be the first United States Treasurer to speak about money in words that are not only understandable but positively lyrical.

So -- a salute to money.

Workers earn it,
Spendthrifts burn it,
Our bonds enlarge it,
Housewives charge it,
Bankers lend it,

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Congress spends it,

Gamblers love it,

And all of us could use more of it.

April is spring, and spring, from Nature's viewpoint, begins the new year.

During the past year -- the past 12 months -- we have all seen enormous changes in our country.

-- We have -- for the first time -- an American President, and Vice President, appointed to office.

-- We have had the highest rate of inflation in our peacetime history.

-- We have had the worst economic slump in a quarter of a century.

-- And $100 billion of the world's wealth has been transferred to a small band of developing nations.

The past year has brought personal and economic changes to all of us. But one of the major stories of 1974 has escaped the headlines. To me, that story is how well our economic and political system operated under conditions of extraordinary stress.

Remarks for the Top Management Meeting, San Antonio, Texas on April 4, 1975 at 12 noon.

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After every major change, the Calamity Janes -- and Joes -- in our midst renamed our Ship of State the Titanic, and announced that we were already half-way under water and sinking fast.

That isn't true, and it won't be true. America is alive, and, going and growing, and both America and I will be here to welcome my as-yet-unborn granchildren -- who, incidentally, will be Texans as my daughter had the good sense to pick a super son-in-law from your state.

Besides inflation, recession, and oil problems, last year was memorable to me personally because that was when I became Treasurer of the United States. This was an event of considerable less cosmic significance, which occurred last June 21st, and which occasioned my transfer from New Mexico to Washington, D.C. This was the beginning of a whole new lifestyle which is, for me, mind-expanding and -- unfortunately -- waistline expanding as well, since I now give several speeches a week to the accompaniment of delicious food like this.

At the Main Treasury Department in D.C., my boss, Treasury Secretary William Simon, and his staff, are very concerned and involved with the problems of money, oil, inflation and recession. They are concerned -- but they are not Calamity Janes, and they most certainly do not see the end of the world Thursday at 10 o'clock as some pundits like to predict.

Let's look at the record of what has been predicted and what actually has happened.

The prices of foreign oil have quadrupled, and some prophets of doom said the international financial system would collapse as massive sums of money were transferred within world markets.

What really happened was a little different.

Financial institutions responded with considerable skill. OPEC funds were rather widely disbursed. And the oil consuming nations are making progress in establishing new international agreements for future emergencies.

Furthermore, new oil discoveries outside of the OPEC nations, in recent years, and new production in the U.S. and elsewhere will mean an eventual lowering of these inflated prices. As Secretary Simon says, it's a question of when, not if.

As another example where the sky didn't fall, let's look at gold sales. Late last year, American citizens were allowed to buy gold for the first time in decades. Many critics predicted that we would join with international speculators in a great new gold rush.

In fact, no hysteria -- no great gold speculation -- occurred. When I checked a few weeks ago, gold was selling at about $20 below the quoted prices of December 30.

For a final brief example, let's look at inflation and recession and the fears of some critics that we are right on target for another Great Depression like the 1930's.

Of course, we have real inflation -- and a recession. But government officials, and economists in and out of government, believe the present economic slide will bottom out during the middle months of this year and that by the end of 1975, we will be on the road to recovery.

The end of recession is not just around the corner. But, as my boss Secretary Simon put it the other day, he sees "patches of blue in a gray, wintry sky."

For example: Wholesale prices have fallen for 3 months in a row -- the first decline in 8 years.

The prime lending rate has fallen from 12% last July to 7.75%, and funds are returning to the thrift institutions.

Automobile makers are reducing inventories, and some employees have been recalled to work.

And on the stock market, the Dow Jones Averages have risen considerably over their low of last year.

Our free enterprise economic system still functions, and the laws of supply and demand still apply. These are facts, and they do not cease to be facts because they are ignored, twisted, or misunderstood. Too often, it seems to me, we apologize for ourselves and our institutions and do not think to doubt the doubters. It reminds me

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of the aphorism that Americans are free to say what they think even when they don't bother to think.

Our countrymen have the greatest mass prosperity ever known -- yet we, and they, have strangely little faith in the free enterprise system that makes it possible. Perhaps it's not faith we lack, but the "push", or the will, to learn more about our economic system and to make sure that our children's generation also understand the basic principles behind the system.

Take, for example, the matter of profits. In some circles this is almost a dirty word, synonymous with greed or dishonesty.

Yet, if it weren't for profits, we wouldn't <u>have</u> businesses -- we wouldn't have healthy companies to make our goods and provide jobs for people.

It is not healthy, profitable businesses that -- in the vernacular -- "rip off" society. It is the unprofitable business that harms society, that must be propped up by someone else's money, and that results in heavy social costs and the loss of jobs.

As Britain's Sir Winston Churchill said, "It is a socialist idea that making profits is a vice. I consider the real vice is making losses."

Churchill would be delighted with our United States Savings Bonds program because it benefits everyone -- the individual who buys and the government which promotes.

Savings Bonds are part of America. As a teenager,

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I sold war bonds on Saturday mornings in my little hometown of Mountainair, New Mexico. Over the years I gave, and received, bonds as presents. I know, and so do you, that Savings Bonds are a safe, convenient, painless way to save.

At 6 percent interest, bonds are also very competitive. One banker friend has added up some figures which show that $75 invested in bonds monthly in the last 6 years are worth more today than the same amount of money invested in stocks on the Moody's Industrial Index.

More recently, I discovered the tax advantages of bonds -- advantages which under certain circumstances can raise your after-tax income substantially.

As United States Treasurer, I am now aware of the ways that bonds help our nation.

They are a noninflationary way to put more of the Federal debt into the hands of long-term savers. Savings Bonds remain outstanding for an average of 6 years, while other marketable instruments turn over in 3 years or less. Almost a quarter of our publicly held national debt is in the form of Savings Bonds.

Finally, bonds are a tangible expression of faith in America and her future. Perhaps that's why, in these difficult times, the sale of Savings Bonds is rising. A record 6.9 billion were sold last year -- the highest figure in 29 years. This year, we are exceeding even that record. Americans know a good thing when they see it -- and "good things" include United States Savings Bonds.

Savings Bonds go a long way in encouraging Americans to be thrifty and in teaching us the virtues of financial independence.

Since I am a strong advocate of personal independence via the free enterprise system, people sometimes ask me: "If free enterprise works so well, why is there such a high rate of inflation and unemployment?"

Well, we all know there are several reasons.

We fought a war in Viet Nam and charged it.

We recently sustained world-wide crop failure.

We suffered an oil embargo, and prices on oil today are high.

But more fundamentally, we have, for years, abused our economic system. The fact that it still functions so well is a great tribute to the basic strength of a marketplace economy.

-- Our ever-growing Federal government puts enormous demands on the economy. This year our national budget is past the $300 billion mark.And for the first time, the Treasury Department is borrowing money that will not be repaid until the 21st century.

-- Our monetary policies, with their huge deficits, heavy borrowing and increasing money supply have increased our problems.

-- The proliferation of government regulations adds many costs to business and eventually consumers. For example, federal regulations added $320 to the price of a 1974 car.

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-- Finally our national habit of encouraging consumption and federal spending at the cost of savings and investments is a very serious concern. Capital investment in the United States in recent years has been the lowest of any major industrial nation in the free world.

These trends place enormous strains on the economy. Secretary Simon and other government officials are trying to make some changes. And, as I indicated, there are recent signs of improvement.

But we must still restore greater discipline to our financial affairs. We must lighten the hand of government in many areas. And we must encourage savings, investment , and capital formation.

Finally, we must turn away from the doomsayers who see only the dark side of things. Despite our problems, we have an incredibly strong nation, both in spirit and in material goods. Now we need to speak to the good in each other.

But we need to do more than speak -- we need to act.

As parents,we need to instruct our children in economics. We must transfer to them our knowledge of the supply and demand system; our belief in the free marketplace; and the legitimacy of profit.

As business people, it is incumbent on us to take our knowledge and expertise into the classrooms, by actually serving as speakers and lecturers, and by seeing that our elected school board members transmit the need for sound economic education to the teachers.

As citizens, we must demand that the news media make some effort to understand our economic system.

As voters, we must make certain that our elected officials -- from D.C. to City Hall -- understand that good economics is good politics.

As Americans, we must build on our strengths once more. Let us look back at our 200 years as a going, growing nation. Then let us look forward with confidence as we go about doing our jobs, raising our families and helping our society.

Thank you.

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
Tuesday, April 1, 1975

FOR INFORMATION CALL:
(202) 456-6757

COUNCIL ON WAGE AND PRICE STABILITY FILES BEFORE THE CIVIL AERONAUTICS BOARD

Attached is a copy of the Council on Wage and Price Stability's filing to the Civil Aeronautics Board supporting the request for suspension and investigation of the Youth, Senior Citizen and Family Fares filed by Trans World Airlines for an "experimental period of 9-1/2 months" to begin April 13, 1975.

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Before the
CIVIL AERONAUTICS BOARD
Washington, D.C.

In the Matter of TRANS WORLD AIRLINES, INC. Proposed 1975 Youth, Senior Citizen, and Family Fares	Docket Nos. 27657, 27658, 27661, and 27685

Answer of the
Council on Wage and Price Stability
in Support of Petitions for
Suspension and Investigation

The Council on Wage and Price Stability (the "Council") hereby submits its answer in support of the petitions of Eastern Air Lines, United Air Lines, the American Society of Travel Agents, and the Department of Transportation insofar as they request suspension and investigation of the Youth, Senior Citizen and Family Fares filed by Trans World Airlines (TWA) for an "experimental period of 9-1/2 months" to begin April 13, 1975.

The promotional fares filed by TWA provide for reduced cost travel for selected segments of the population -- family members, youths, and senior citizens -- willing to comply with their terms. Specifically, the

Family Plan offers normal reserved seat coach service at a 33-1/3 percent reduction from normal coach fares for the spouse and/or children, 2 to 21 years old, accompanying a head of family who pays the full fare. The fare is not available during the peak summer period or during certain holiday blackout periods. The fare is available only on a round-trip basis and travel must be completed within six days.

The youth and senior citizen fares are for no-reservation or standby service. The two plans are identical except for the ages of the passengers in the two favored groups. */ Each offers a 33-1/3 percent reduction from the normal coach fare. Each is available year round, except for certain holiday blackouts. In order to quality a passenger must make a one-time purchase of an I.D. card for $5.

In support of its proposal, TWA states that a limited offering of these fares will provide increased revenues (and decrease excess capacity) and thereby reduce the losses which the carrier expects in the near future.

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*/ The youth fare is available for travelers between the ages of 12 and 21, while the senior citizen fare is available to passengers 65 years of age or over.

Thus, the carrier contends that the fares will benefit not only those who use them but all travelers by "reducing the level of further fare level increases in the near future." TWA acknowledges that the fares are of the general type that were found unjustly discriminatory by the Board in Phase 5 of the recent <u>Domestic Passenger Fare Investigation</u> (DPFI). However, it argues that the industry is experiencing unusual economic problems today -- namely, unprecedented inflationary cost increases (particularly fuel) and a recent sharp decline in traffic. Under these circumstances TWA urges that the Board permit the use of every promotional tool available including the fares at issue.

Petitions seeking suspension and investigation of TWA's tariffs have been filed by Eastern Air Lines, United Air Lines, the American Society of Travel Agents (ASTA), the National Association of Motor Bus Owners (NAMBO), and the Department of Transportation.

The Council on Wage and Price Stability hereby answers in support of those petitions insofar as they seek suspension and investigation of TWA's fares. */

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*/ In supporting the requests for suspension and investigation, we do not necessarily endorse all of the arguments made by each of the petitioners.

The Council has a direct interest in the fares in question. The Council was created by the Council on Wage and Price Stability Act of 1974 (Public Law No. 93-387) on August 24, 1974. The Council's purposes under the Act are, generally summarized, to monitor the inflationary impact of activities in both the public and private sectors of the economy. Section 3(a)(7) of the Act expressly directs the Council to

> review and appraise the various programs, policies and activities of the departments and agencies of the United States for the purposes of determining the extent to which those programs and activities are contributing to inflation.

Further, Section 5 of the Act requires the Council to report its findings and recommendations for the containment of inflation to the President and Congress.

With respect to air transportation, we are particularly concerned with the sharp rise in scheduled air fares, amounting to nearly 20 percent over the last 18 months. Understandably some of this increase has been attributable to substantially higher fuel costs over this period which have been passed through in higher fares. At the same time, however, the national economy, already suffering from prolonged inflation, entered a major recession. The result of these forces -- substantial fare increases and a deteriorating economic situation -- has

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been the stagnation of air carrier traffic and, for some carriers, significant traffic declines. Indeed, the industry as a whole has reported a substantial traffic decline so far in calendar 1975.

Moreover, for most carriers, the economic effects of these declines in traffic have been exacerbated by substantial increases in capacity in recent months as carrier operations have returned to "normal" following the easing of the fuel situation. As a result, load factors have declined even more sharply than traffic.

The industry and the Board seem to be unanimous in recognizing that steps must be taken to reverse these trends. The question which divides the industry concerns the exact steps which should be taken.

We believe that a substantial reduction in airline fares is necessary to correct the industry's economic problems and that fare reductions would be a desirable step in curing the broader national problem of inflation. Thus, we have urged the Board to permit the price mechanism to work by granting to each carrier a great degree of flexibility in establishing promotional fares responsive to its own system needs. */

At the same time, however, we urge the Board to adhere to its conclusion in Phase 5 of the DPFI that fares designed to favor a particular social group are unjustly discriminatory and unlawful. Less than a month ago the Board reaffirmed that conclusion in rejecting a senior citizen standby fare proposed by Hawaiian Airlines.

> "The question of fare discrimination was addressed at length in Phase 5 (Discount Fares) of the Domestic Passenger Fare Investigation. The Board noted that the courts have held that factors related to the status of traffic and unrelated to transportation may not be considered in justification of a discriminatory fare, nor is the Board empowered to take into consideration matters involving broad social policies, such as special treatment for any particular age group, whatever its personal views may be on such policies. The Board went on to state that discrimination in favor of young persons could only be justified by substantial overriding considerations involving the sound development of the air transportation system, but that the evidence before it in this regard was insufficient to justify the discrimination inherent in youth and family fares.

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*/ See the Council's Answer to Complaints in Dockets 27607 and 27610.

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> "Hawaiian has failed to put forth facts here which would justify a departure from the fare-discrimination criteria enunciated in our Phase 5 decision as it relates to fares available to a defined age group, nor is there any reason to believe that there are developmental benefits flowing from the senior citizen fare which would justify their discriminatory aspects. Accordingly, in view of decisions by the Board and the courts, the fares here proposed must be considered to be prima facie unjustly discriminatory." Order 75-3-36 at 1-2 (March 12, 1975) (footnotes omitted).

In our view, the same findings should be made with respect to each of TWA's fare proposals. In fact, TWA does not contend that the three fare plans are consistent with the Phase 5 standards on discrimination. Rather, it argues "special circumstances," contending that the airline industry's current economic condition warrants the temporary suspension of those standards.

The facts related by TWA justify price reductions. They do not justify discrimination. In our view, there are many alternatives, such as overall fare reductions, excursion fares, and off-peak pricing, which will meet the industry's problems without re-introducing the invidious discrimination so recently abandoned. The "no-frills" fare proposed by National Airlines, which the Board has permitted to become effective pending investigation, is an example of the sort of creative fare proposal which can be designed to meet the current problem without resort to discrimination. */

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*/ See Order 75-3-102 (March 27, 1975).

For these reasons, we support the petitions of Eastern, United, ASTA, NAMBO, and the Department of Transportation and urge the Board to suspend and investigate TWA's fare proposals.

Respectfully submitted,

George C. Eads
Assistant Director for
Government Operations
and Research

Vaughn C. Williams
General Counsel

J. Michael Roach
Assistant General Counsel

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

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FOR RELEASE APRIL 3, 1975

TREASURY, EPA AGREE TO ABATE EMISSIONS FROM BUREAU OF ENGRAVING AND PRINTING INCINERATOR

The Department of the Treasury and the Environmental Protection Agency have agreed on a plan to abate air pollution emissions from the incinerator operated by Treasury's Bureau of Engraving and Printing at 14th and C Streets, S.W., Washington, D.C.

The incinerator now is being used to burn various security items, including "old money." Although the incinerator has a maximum capacity of 17,160 pounds per day, the Bureau during the past several years has gradually lessened the emissions by reducing the load to 4,500 pounds per day.

The agreement formalizes Treasury's air compliance plan, which includes the construction of mechanical destruction systems to replace the incinerator by June 1, 1976. Meanwhile, the Department will restrict use of the incinerator to three or four days per week and will continue to study alternative methods for disposing of various types of materials. The Department is also exploring changes in the regulations governing the destruction of security paper in order to expedite the adoption of methods of disposal other than incineration.

The agreement was signed for Treasury by Warren F. Brecht, Assistant Secretary (Administration).

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

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FOR IMMEDIATE RELEASE April 2, 1975

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $1,280 million of 52-week Treasury bills to be issued to the public, to be dated April 8, 1975, and to mature April 6, 1976, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 5 tenders totaling $1,420,000)

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	93.610	6.319%	6.75%
Low -	93.358	6.569%	7.03%
Average -	93.454	6.475%	6.92%

TOTAL TENDERS FROM THE PUBLIC RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted
Boston	$ 20,800,000	$ 10,800,000
New York	1,784,305,000	1,021,625,000
Philadelphia	21,265,000	1,265,000
Cleveland	23,735,000	23,735,000
Richmond	1,760,000	1,760,000
Atlanta	8,670,000	8,670,000
Chicago	203,170,000	126,170,000
St. Louis	14,525,000	12,355,000
Minneapolis	10,585,000	10,585,000
Kansas City	6,350,000	6,350,000
Dallas	1,545,000	1,545,000
San Francisco	113,140,000	55,140,000
TOTAL	$2,209,850,000	$1,280,000,000

The $1,280,000,000 of accepted tenders includes 83 % of the amount of bills bid for at the low price and $30,735,000 of noncompetitive tenders from the public accepted at the average price.

In addition, $924,980,000 of tenders were accepted at the average price from Government accounts and from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

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

EDITORS:

The attached testimony being presented before a Congressional subcommittee today by Treasury Secretary William E. Simon is called to your attention less because of its current news value than because of its emphasis on long-range economic trends and the need it expresses to determine priorities in terms of claims against future national output. As Mr. Simon states, it is vital that this process begin "not when the recession is over, not when inflation is under control, and not when the next election is over, but now."

OFFICE OF PUBLIC AFFAIRS

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

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FOR RELEASE AFTER DELIVERY

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON PRIORITIES
AND ECONOMY IN GOVERNMENT
OF THE JOINT ECONOMIC COMMITTEE
Washington, D.C., April 3, 1975, 10:00 A.M., EDST

Mr. Chairman and Members of this Subcommittee:

These hearings provide a timely and important recognition of the need to carefully consider national economic priorities, and I welcome this opportunity to appear before you. A more thoughtful consideration is certainly required to avoid repetition of the severe economic distortions of the past decade. Your leadership in the Joint Economic Committee has provided a unique forum for such discussions for many years. But the sharp cyclical swings, unprecedented double-digit inflation, unacceptable levels of unemployment and increasing uncertainties about the future adequacy of raw materials and productive capacity have created a real sense of urgency. Any immediate relief resulting from the economic recovery, that now appears to be getting underway, will be only temporary if fiscal and monetary abuses are built into the system causing even more violent booms and busts.

The American people must understand the competing demands in making priority decisions as well as the remarkable creativity and productivity of the U.S. economic system when it is allowed to function properly. Your series of thirteen major papers presented to Congress on such diverse subjects as Education, Women's Rights and Opportunities, Civil Rights, Health, Social Security, the Media, Defense, the Environment, Consumer Protection, Government Productivity, Agriculture, Foreign Affairs and Federal Disaster Relief Programs is an impressive effort and I commend you for it. I particularly admire your call for elimination of many obsolete regulatory functions of government which are unnecessarily restricting the efficiency of the U.S. economy. But the entire Congress, every Executive agency and the general public must recognize that

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the ranking of claims against the potential output is now one of our most important economic challenges. We cannot do everything immediately and we must consider the proper allocation of resources and functions between the public and private sectors. I am confident that we can cooperate to make these decisions but we need more effective analysis and planning.

My testimony will not focus on the improving prospects for near-term recovery beyond repeating my fundamental concern about avoiding fiscal and monetary excesses during the current transition which would inevitably lead to even more serious economic distortions within a relatively brief period of time. Nor will I discuss current budget and tax issues. Instead, I will limit my brief remarks to three specific points which will affect future national economic priorities: (1) my skepticism about the economic assumptions used in the five-year estimates presented in the President's Fiscal Year 1976 budget, either as a description of the probable economic results or as a proper guideline for national policy; (2) the productive capacity of the U.S. economy which will ultimately determine which priority goals can be met; and (3) the Federal Government's role in identifying national priorities and necessary policies.

I. THE FIVE-YEAR BUDGET ESTIMATES

The Congressional Budget and Impoundment Control Act of 1974 requires a five-year projection of Federal budget outlays and receipts that would result from the continuation of existing and currently proposed programs with adjustments for anticipated population trends and economic conditions. Additional spending programs beyond the existing commitments are not included. Reasonable assumptions about demographic patterns are usually possible but anticipating changing economic conditions has proven to be extremely difficult, if not impossible. Unfortunately, the five-year budget projections are dependent upon several key assumptions about the economy because the budget results are increasingly affected by economic developments. Retirement and other social insurance benefit payments are linked to consumer price changes. Medicare, Medicaid and other transfer payments are also affected by price developments. Numerous entitlement programs, such as unemployment compensation claims, are directly tied to the status of the economy.

Federal construction and federally assisted programs respond to economic conditions. Interest on the national debt depends upon the general financial markets. Tax receipts obviously are determined by individual and business incomes.

The key economic assumptions underlying the FY 1976 to 1980 estimates have received widespread attention, particularly the pessimistic inflation and unemployment figures. For calendar year 1976 the Consumer Price Index increase was estimated to be 7.8 percent and the unemployment rate forecast remains close to 8 percent.

ECONOMIC ASSUMPTIONS

[Calendar years, dollar amounts in billions]

Item	1973 actual	1974 actual	Assumed for purposes of budget estimates 1975	1976	1977	1980
Gross national product:						
Current dollars	$1,295	$1,397	$1,498	$1,686	$1,896	$2,606
Constant (1958) dollars:						
Amount	$839	$821	$794	$832	$879	$1,061
Percent change	5.9	−2.2	−3.3	4.8	5.6	6.5
Prices (percent change):						
GNP deflator	5.6	10.2	10.8	7.5	6.5	4.0
Consumer Price Index	6.2	11.0	11.3	7.8	6.6	4.0
Unemployment rate (percent)	4.9	5.6	8.1	7.9	7.5	5.5

Sluggish improvement in both measures was assumed but at a very unsatisfactory rate. It is important to note that the figures for calendar years 1975 and 1976 are forecasts of probable economic developments but the longer-term figures for 1977 through 1980 are projections of trends that would be consistent with the general goals of gradually returning to lower levels of inflation and improved employment conditions.

I do not believe that the economic assumptions used in preparing the five-year budget estimates are a sound indicator of the likely pattern of inflation and unemployment in the near term or that precise projections can be made for later years. In such a volatile period it is important to maintain perspective rather than frequently shifting policies in response to each new econometric forecast, particularly when the underlying assumptions for such predictions are so uncertain. The record in recent years clearly demonstrates the uncertainties of economic forecasting using the somewhat mechanical models available. Even short-term forecasts covering only a few months are often wrong and economists have difficulty even describing current economic conditions as multiple statistics are reported and subsequently revised. Unfortunately, the methodology of computer forecasts often creates a false impression of accuracy and certainty. I sometimes think that economists use decimal points in their forecasts to prove they have a sense of humor. But the forecasting errors of the past few years have been anything but humorous. The sharp increase in the unemployment rate and the rapid erosion of inflation pressures in recent months indicate that these two key assumptions may already be far off the mark and the figures for subsequent years are even more questionable. Like any other management tool, the questioning process required for preparing an economic forecast is probably more valuable than the resulting estimates. Public officials should never accept such tenuous forecasts as a firm basis for policy decisions, particularly during periods of sharp cyclical swings.

Another serious limitation of the economic assumptions presented in the FY 1976 and 1980 budget figures involves the unfortunate tendency of forecasters to give only one estimate. For example, an unemployment rate of 8.1 percent is the forecast for 1975 but no indication of the possible range of results is indicated. It is obvious that the actual figure could fall somewhere within a broad or narrow range on either side of the published estimate. For many policy decisions it is more important to know the range of possible results and their probabilities than it is to have a single estimate. In even the most simple economic forecast a series of estimates about investment and savings decisions in each sector of our $1-1/2 trillion economy must be made. In estimating unemployment figures additional decisions about the growth of the labor force, job mobility and other demographic variables are required. We too often receive false signals because only the single estimates are presented and a misleading consensus is implied because the range of possible results and their probabilities are not discussed. There is also the familiar problem that where there are two economists there will be three opinions expressed and the rate increases geometrically for other groupings.

But even if the budget's economic estimates are a reasonable approximation of the future economy we should not passively accept those results. As Secretary of the Treasury and Chairman of the Economic Policy Board, I am not satisfied with the projected levels of inflation or unemployment.

The challenge of economic leadership is to provide a more stable economic environment in which the private sector recovery can accelerate. Such improvement requires a restoration of consumer and business confidence. Expedient actions designed for short-term political benefit will not restore that confidence. Therefore, there is an important role for the government in identifying national goals and establishing more stable fiscal and monetary policies.

I believe we can do better than the economic assumptions suggest. But we must first demonstrate that government decisions will emphasize economic goals that stretch beyond the next scheduled election; that our future productivity and employment opportunities require increased rates of capital investment; and, that vigorous competition within the framework of a free enterprise economy is still the best approach to maintaining the strength and creativity of the United States.

II. NATIONAL ECONOMIC PRIORITIES

We still have the premier economy of the world and rapid, though somewhat erratic, economic growth continues to occur. But Americans recognize that output gains and high per capita incomes do not instantaneously solve all of our national problems. When we apply too much pressure on our system to produce goods and services, the inevitable result is inflation and shortages. If increased government spending exceeds the resources available and the monetary system finances the resulting deficits, the economy eventually becomes overheated. The underlying growth trends of the U.S. economy will provide sustained progress but we cannot realistically expect to satisfy every new claim.

While the need for responsible demand management is generally accepted, each special interest group assumes that its claim is unique and deserves satisfaction. Unfortunately, we have clearly forced the level of government spending beyond the willingness of society to pay for the programs provided. At the conclusion of FY 1975 we will record our fourteenth Federal budget deficit in the past fifteen years and the fortieth deficit in the past forty-eight years. And the budget outlook over the next few years is clearly a matter of great concern. In trying to respond to so many diverse interest groups the Federal Government has frequently distorted the efficiency and stability of the entire economic system and has created an accelerating momentum of outlays which has eroded our fiscal flexibility in responding to changing priorities and current problems.

The Federal Government obviously has a fundamental role in decisions about the uses of the national output. Unfortunately, it is widely believed that the government's role is limited to simply balancing the Federal budget over time. In reality, Federal decisions influence the entire economy through direct purchases, taxes, transfer payments and a variety of research and grant programs which serve as seed capital for determining private sector activities. Total government spending now comprises over one-third of the total economy and the upward trend may accelerate if the growth of transfer payments continues to increase rapidly (see Chart 1). In describing the pervasive influence of Federal decisions in allocating available resources among competing claims I am not suggesting that we should have a controlled economic system. To the contrary, I am strongly committed to the private sector as the superior source of economic progress and my experiences in government have reinforced those beliefs. But we must recognize the major impact of government decisions on every sector of our economy.

Unfortunately, debates about setting national economic policies are too often limited to arguments about the allocation of functions between the public and private sectors. In considering national economic priorities a much broader perspective is required. The total productive capability of the <u>entire</u> economy must be first identified before attempting to rank and select specific claims against that potential output. Estimating the <u>total</u> economic capacity of the system avoids the simplistic arguments that additional government programs can be continuously created to meet every claim by simply shifting resources from the private to the public sector. Adding new government commitments is not feasible if the total production capacity of the economy is exceeded. This guideline has been frequently violated as total demand has increased too rapidly for the economic system to absorb. When this happens the economy begins a boom and bust sequence with severe inflation, and unemployment distortions, such as occurred in the late 1960's and again during the last three years. The inflation and unemployment caused by these wide swings disrupts the entire U.S. economy and international stability. Unfortunately, the overheating process has often been caused by excessive rates of increase in government spending. The results of such excesses persist long after economic conditions change because spending programs are rarely eliminated.

A study of total capacity was prepared in 1969 by the Council of Economic Advisers and published in the Economic Report of the President for 1970. The pattern of real increases in Gross National Product was projected for 1976 using trend estimates of the growth of the labor force, national productivity gains, expected unemployment and the annual average number of hours worked per person. The existing claims against the projected GNP were then identified, including personal consumption, business investment, housing and government spending. All of these claims were adjusted to reflect demographic and economic assumptions. Federal spending was projected to include only existing programs plus new proposals for revenue sharing, welfare reform and pollution abatement outlays. As summarized in Table 1, the fulfillment of the total claims already identified in 1969 required a relatively rapid expansion of output to keep pace:

> "...the existing, visible, and strongly supported claims already exhaust the national output for some years ahead. This is not to say that no other claims included in these calculations should have preference over claims not recognized here. The basic point is that if other claims are to be satisfied some of those recognized here will have to be sacrificed." Economic Report of the President, 1970, p. 80.

These projections in the Council of Economic Advisers analysis are hypothetical estimates based on somewhat arbitrary assumptions, and actual results have varied during the intervening years since the study was completed. Nevertheless, a crucial point is evident: decisions on national economic priorities must reflect total output potential and all existing claims rather than focusing only on Federal budget outlays. Whenever resources are limited recommmendations to add new government programs must consider the prospective impact on the private sector. In short, the creation of new priorities, or expansion of existing commitments at an accelerated rate, will require giving up or curtailing some existing claim. Once it is recognized that the potential GNP has already been committed to existing claims the consideration of new outlay requests should become more realistic. Spending decisions should then concentrate on realigning claims rather than merely adding additional commitments to satisfy diverse interest groups. This point is particularly important in considering the massive amounts of private capital investments required to meet future capacity and employment needs. Instead of reducing capital investment to release resources for government social programs, the amount of private outlays must be accelerated. This basic requirement means that government spending and tax policies should be directed toward creating a more balanced budget so that the future flow of savings is not diverted away from private investment into the financing of large government deficits.

III. GOVERNMENT POLICIES AND PRIORITIES

Although the projections of potential output and claims summarized in Table 1 are necessarily based on many arbitrary assumptions, the framework of analysis suggested is useful in considering national economic priorities for at least three important reasons:

1. Existing claims on the potential national output, even assuming rapid growth, tend to exhaust the probable national output into the future. If new commitments are to be made, then existing claims must be eliminated or curtailed.

2. The Federal Government's fiscal policies will directly affect which claims are satisfied through the influence of its spending and tax policies.

3. The prospective level of private capital investment will be directly affected by the pattern of government spending and deficits.

The traditional view of the government's role has been that a balanced budget is a symbol of fiscal responsibility. Accordingly, when deficits occurred, the government was expected to restrict outlays and/or increase taxes. However, it is obvious that as a result of economic fluctuations the surplus or deficit for any specific year will inevitably be different from the arbitrary target. The "annual balance" rule eventually was replaced by the concept that balance should occur over the course of the business cycle so that fiscal policies could be used to stimulate the economy despite any resulting deficits. The relatively unknown corollary of this "pump-priming" policy, of course, is that budget surpluses should occur during periods of above-average economic activity to create the desired balance over time. Unfortunately, the actual pattern has been completely asymmetrical with deficits occurring almost every year (see Table 2). While some

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economists have tried to justify this pattern, I believe that by concentrating on short-term economic stabilization goals rather than long-term allocation of resources our fiscal policies have become a disruptive force. Too often fiscal policies have lagged economic developments so that the desired stimulus or restraint typically arrives long after the business cycle changes. The "emergency" spending programs created to pull the economy out of a recession often add to the subsequent overheating of the economy and create additional commitments that last far into the future. A corresponding reduction of these programs during periods of economic expansion is unusual. The result is an escalating pattern of government programs, which are oriented toward the problems of the past and restrict the government's ability to respond to new national priorities or current problems. Finally, the "full employment" budget was introduced to correct the asymmetrical pattern of deficits, but this tool has not provided the necessary discipline. All of these approaches have failed because the Executive Office and Congress have been unwilling to shift their attention to longer-term goals or to face up to the agonizing experience of saying no.

The most recent effort to regain control of the fiscal process is the creation of the Congressional Budget Committees. This action properly recognizes that the only meaningful budget control consists of self-discipline. Quantitative guidelines have never survived the pressures of political elections or powerful pressure groups. It is ironic that we have waited two hundred years to adopt a Congressional procedure for considering individual spending programs as parts of a total budget only to begin the process during an unusually chaotic period of economic change. But this approach offers the only real promise of developing Congressional discipline in considering the total economic importance of the Federal budget. The next step is to expand the process to consider longer-term goals and finally to relate the government spending actions to the total capacity of the economic system as suggested earlier in my testimony. When this entire cycle is completed we will recognize that individual pieces of legislation cannot be simply added without considering what existing claims need to be eliminated or curtailed. The economic discipline of allocating scarce resources to different claims according to national priorities can be ignored for brief periods, but the economic distortions of the past decade indicate that this is a costly decision.

IV. SUMMARY

My experiences in government service convince me that we must become much more rigorous in evaluating new claims against our future national output. The economy will continue to grow and meet many of our needs, but we cannot realistically expect to satisfy every competing claim. Some will have to be eliminated or restrained. Accordingly, in assessing the growth of Federal spending, we must recognize the realistic growth capabilities of the total economy. In recent years, we have lacked the discipline to maintain the necessary balance. From calendar year 1966 through calendar year 1975 the GNP will have increased from $749.9 billion to approximately $1.5 trillion, a gain of 100 percent. From fiscal year 1966 through fiscal year 1976 Federal budget outlays will jump from $134.7 billion to at least $349.0 billion, an increase of 160 percent. Some would welcome this acceleration of Federal spending because they favor a different approach to allocating functions between the private and public sectors. I strongly disagree because I believe the private enterprise system is the world's most efficient approach to increasing output and preserving personal freedoms. But whichever course our mixed economy takes in the coming years, the need for a more rigorous consideration of national economic priorities is necessary.

It is vital that the process of sorting out of national economic priorities begin now -- not when the recession is over, not when inflation is under control, and not when the next election is over, but now.

Twenty years ago it was apparent in this country that we were heading for an energy crisis. One report after another confirmed it, but instead of providing wisely for the future, we insisted upon living foolishly for the moment. Now we are beginning to pay the price, and we will go on paying for some time to come.

In the same way, we have seriously abused the private enterprise system and have so encouraged the enormous growth of government that we are heading toward another serious crisis. The United States is rapidly coming to a crossroads where we must decide what type of economic system we want. I hope that we will continue to emphasize the free enterprise system in America and roll back the forces of restrictive government. The choice is one that our generation is called upon to make. Unless we act soon, the decision will be made for us by default.

Thank you.

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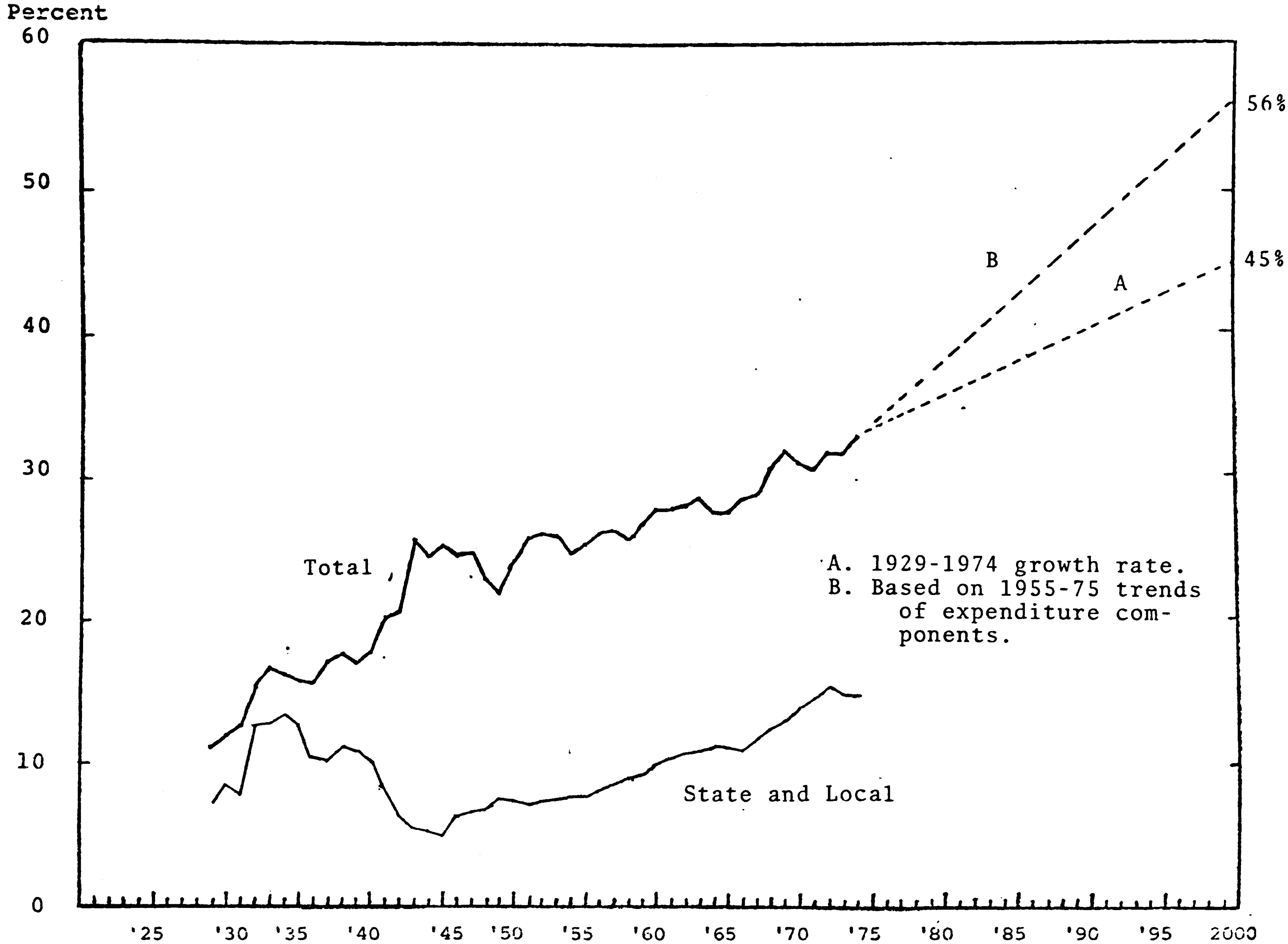
CHART 1

Government as a Percent
of GNP, 1929-2000



Office of the Secretary of the Treasury
Office of Financial Analysis

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TABLE 1

REAL GROSS NATIONAL PRODUCT, 1955, 1966, and 1969 - PROJECTIONS FOR 1975-76.

	Actuals			Projections	
	1955	1966	1969	1975	1976
	Billions of dollars, 1969 prices				
Gross national product available..........	569.0	845.5	931.4	1,199	1,251
Claims on available GNP...............	569.0	845.5	931.4	1,188	1,232
Federal Government purchases........	69.8	88.3	101.3	83	83
State and local government purchases..	53.8	94.4	110.8	140	144
Personal consumption expenditures.....	344.3	519.2	577.5	788	802
Gross Private domestic investment.....	96.9	137.5	139.8	192	198
Business fixed investment..........	55.1	92.0	99.3	128	134
Residential structures.............	34.5	29.4	32.0	52	52
Change in business inventories.....	7.3	16.1	8.5	12	13
Net exports of goods and services.....	4.2	6.1	1.9	5	5
Unallocated resources..................	.0	.0	.0	11	19
Addendum: Federal surplus or deficit (-), national income accounts basis..........	5.6	-.2	9.3	25	32
Per capita personal consumption expenditures........................	2,083	2,637	2,842	3,529	3,641
	Percent of total GNP available				
Gross national product available...........	100.0	100.0	100.0	100	100
Claims on available GNP.................	100.0	100.0	100.0	99	99
Federal Government purchases..........	12.3	10.4	10.9	7	7
State and local government purchases..	9.5	11.2	11.9	12	12
Personal consumption expenditures.....	60.5	61.4	62.0	34	64
Gross private domestic investment.....	17.0	16.3	15.0	16	16
Business fixed investment..........	9.7	10.9	10.7	11	11
Residential structures.............	6.1	3.5	3.4	4	4
Change in business inventories.....	1.3	1.9	.9	1	1
Net exports of goods and services.....	.8	.7	.2	(1)	(1)
Unallocated resources..................	.0	.0	.0	1	2
Addendum: Federal surplus or deficit (-), national income accounts basis.........	1.0	.0	1.0	2	3

1/ Less than 0.5 percent. Note: - Projections are based on projected Federal expenditures (See Table 27) and their influence on various components of GNP.

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TABLE 2

FEDERAL BUDGETS

CHANGES IN THE UNIFIED BUDGET OUTLAYS

BY FISCAL YEAR, 1961-1976

(dollars in billions)

Fiscal Year Over Preceding Year	Federal Outlays	Dollar Increase	Percentage Increase	Surplus or Deficit
1961	$ 97.8	$ 5.6	6.1	-3.4
1962	106.8	9.0	9.2	-7.1
1963	111.3	4.5	4.2	-4.8
1964	118.6	7.3	6.1	-5.9
1965	118.4	-0.2	--	-1.6
1966	134.7	16.3	13.8	-3.8
1967	158.3	23.6	17.5	-8.7
1968	178.8	20.5	13.0	-25.2
1969	184.5	5.7	3.2	+3.2
1970	196.6	12.1	6.6	-2.8
1971	211.4	14.8	7.5	-23.0
1972	231.9	20.5	9.7	-23.2
1973	246.5	14.6	6.3	-14.3
1974	268.4	21.9	8.8	-3.5
1975 (est.)*	313.4	45.0	16.8	-34.7
1976 (est.)*	349.4	36.0	11.5	-51.9

* Last official budget estimates published February 3, 1975. Subsequent decisions have increased the probable level of outlays and the size of the deficit.

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

23

FOR IMMEDIATE RELEASE
Friday, April 4, 1975

Fifty states, the District of Columbia and 37,199 local governments were sent checks totalling $1,523,731,779 by the Treasury Department's Office of Revenue Sharing today, in the eleventh regular distribution of revenue sharing funds since the first payments were made in December 1972.

Today's payment brings to $18.9 billion the amount of money that has been returned to states and local governments since general revenue sharing was authorized by the State and Local Fiscal Assistance Act of 1972 (P.L. 92-512).

The Act provides for the distribution of $30.2 billion to states, counties, cities, towns, townships, Indian tribes and Alaskan native villages over a five year period that ends with December 1976. President Ford has announced his intention to seek extension of the program past 1976.

Funds totalling $39,891,289 were not paid to 605 governments today for a variety of reasons. A few small places elected to waive participation in the program. Because of adjustments resulting from recent data improvements, some governments were found already to have received as much as or more money than they were entitled to receive in the fiscal current year. Some governments still have not filed two simple report forms that were required

-more-

to be returned to the Office of Revenue Sharing in the summer of 1974.

Of the funds being held, by far the largest single amount is due the City of Chicago. Chicago's funds are being withheld pursuant to an order issued by the U. S. District Court in Washington, D. C. in December 1974. The City of Chicago was found to have been using discriminatory procedures to hire and promote members of the city Police Department, where general revenue sharing funds have been spent. The Office of Revenue Sharing is holding two quarterly payments due Chicago: January 1975: $19.2 million; and April 1975: $19.2 million; for a total of $38.4 million. Chicago is the only government whose shared revenues are being withheld pursuant to court order.

General revenue sharing funds are distributed quarterly, in October, January, April and July of each year. The money is allocated by formula, using data supplied primarily by the U. S. Bureau of the Census that has been reviewed by the recipient governments themselves.

Later this month, the Office of Revenue Sharing will announce allocations of funds for federal fiscal year 1976.

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

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FOR IMMEDIATE RELEASE April 3, 1975

BRADFIELD PRESENTED AWARD BY SECRETARY SIMON
ON RESIGNATION AS ASSISTANT GENERAL COUNSEL

Secretary of the Treasury William E. Simon last night, expressing deep regret at the resignation of Michael Bradfield from Treasury after more than 13 years of service, presented him the Department's Exceptional Service Award in recognition of "brilliant accomplishments and extraordinary legal skills." Bradfield had been Assistant General Counsel for International Affairs since 1968.

In presenting the award, Secretary Simon said Bradfield's energy and creative talent would be sorely missed in Treasury. The Assistant General Counsel is leaving Treasury to enter private practice with the law firm of Cole, Corette and Bradfield.

Bradfield participated in a major way in such important developments as the establishment of the International Monetary Fund's Special Drawing Rights, the readjustment of exchange rates during 1971-1973, the development of the Trade Act of 1974, reform of international monetary rules, the settlement of difficult investment dispute matters, and the U.S. participation in the international development lending institutions.

Most recently, he had a major responsibility in the drafting of the Financial Support Fund Agreement of the OECD cooperating nations that will be signed April 9 in Paris.

Bradfield came to the Treasury in 1962 as an Attorney-Adviser. In July 1968, he was promoted to Assistant General Counsel for International Affairs. In this capacity, he was responsible for advising the Under Secretary for Monetary Affairs, and the Assistant Secretaries of the Treasury on international monetary problems, balance of payments, trade matters and development assistance, including United States participation in the international development banks.

He participated in many international negotiations and meetings, such as the annual meetings of the World Bank, International Monetary Fund, Asian Development Bank, and Inter-American Development Bank.

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(Over)

A graduate of Union College, and Columbia University School of Law, Bradfield was the recipient of Treasury's Meritorious Service Award in 1966, and, in 1974, received a Special Citation from Secretary Shultz for "extraordinary competence" in the successful conclusion of the negotiations with the Government of Peru on investment disputes. He also received the General Counsel's award in recognition of "innovative and brilliant" legal achievements.

Bradfield and his wife, the former Inai Yuh, have two sons, and resides at Castlegate, Woodbine Street, Chevy Chase, Maryland.

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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
726 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20506

25

April 2, 1975

MEMORANDUM FOR CORRESPONDENTS:

For information call:
(202) 456-6757

Attached is a copy of a letter sent to the Federal Trade Commissioners from Albert Rees, Director of the Council on Wage and Price Stability expressing concern about the Federal Trade Commission's clarification of the legality of backhaul allowances under the Robinson-Patman Act.

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Attachment

CWPS-36

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
WASHINGTON, D.C. 20506

April 1, 1975

Dear

I am writing to express my concern about the Federal Trade Commission's clarification, in a letter to the Consumers' Union issued on March 19, 1975, and publicly released on March 28, of the legality under Section 2(a) of the Robinson-Patman Act of backhaul allowances offered by a seller, who otherwise offers a uniform zone-delivered price, to customers who provide their own transportation for goods purchased at the seller's warehouse. In my view, it is important that the Commission develop a clear policy to encourage backhaul practices, in order to alleviate the fuel waste and other costs that result from unused backhaul capacity. However, the Commission's March 19 clarification is not such a policy, and may indeed further discourage backhaul.

The March 19 letter requires that the f.o.b. price offered to all backhauling customers be "uniform" -- that is, be the same dollar amount in each case. It does not permit a seller to offer backhaul allowances that vary in accordance with the cost of transportation to each customer. This requirement of uniformity places a substantial restraint upon the development of backhauling -- a restraint not mandated by the Robinson-Patman Act, which permits a seller to offer different prices where justified by different costs.

Under the Commission's March 19 letter, the uniform f.o.b. price offered to customers who backhaul is not likely to be lower than the seller's uniform zone-delivered price minus his average transportation cost for that zone. Sellers, at least those with substantial dominance in their product markets, cannot be expected to offer a uniform allowance in excess of their average costs. This allowance, however, will only permit backhauling by customers who can provide their own transportation at less than or equal to the seller's average cost. Customers far away enough to incur greater transportation costs will not be able to afford to make use of their empty backhaul capacity. In my view, this status will persist over time.

Backhauling by a seller's more distant customers can most simply be encouraged by a seller's offer of an allowance that is equal to his actual cost of transportation to any particular customer. With such an allowance, any customer who can ship as efficiently as the seller would be encouraged to use his empty truck capacity to do so. While different customers would be paying different prices for the same goods, the difference would only reflect differences in the seller's actual transportation costs to those customers.

While Section 2(a) of the Robinson-Patman Act generally prohibits price differentials for a single product, it expressly permits "differentials which make only due allowance for differences in the cost of manufacture, sale, or delivery . . . ." This language can certainly be interpreted to refer to such price differentials as would result from a backhaul allowance measured by actual transportation costs. Additional discriminations may be inherent in the uniform zone-delivered price from which such a backhaul allowance would be deducted. However, that fact makes it no less true that the price differentials resulting from an actual cost allowance would be justified by the differences in the seller's transportation costs to different customers.

Uncertainty about the legality of actual-cost backhaul allowances has significantly impeded the negotiation of backhaul agreements. The Commission's disapproval of actual cost allowances in its March 19 letter will of course further discourage backhaul practices by customers far enough away from a supplier to exceed his average transportation costs. The encouragement of backhaul, on the other hand, would not only save fuel and other costs as noted above, but would also increase competition among suppliers and customers with respect to the transportation of purchased goods. I therefore recommend that the Commission issue a statement that Section 2(a) of the Robinson-Patman Act permits actual cost backhaul allowances.

Sincerely,

Albert Rees
Director

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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
726 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20506

FOR IMMEDIATE RELEASE
Thursday, April 3, 1975

FOR INFORMATION CALL:
(202) 456-6757

COUNCIL ON WAGE AND PRICE STABILITY TO HOLD CONFERENCE ON CONCENTRATION, ADMINISTERED PRICES, AND INFLATION

Albert Rees, Director of the Council on Wage and Price Stability, announced today that the Council will examine "Concentration, Administered Prices, and Inflation" in a conference with an outside group of economists to be held on April 14 from 9:30 a.m. to 4:00 p.m. in Room 2010, New Executive Office Building.

The meeting, which is the first in a possible series of such meetings on various topics of interest, will be an examination and discussion of current empirical research and theories regarding the effect, if any, of administered pricing in concentrated industries on inflation. In announcing the conference, Mr. Rees said, "There have been a lot of allegations about administered prices in the past few months. Therefore, we think it will be useful to pull together the current research on this topic so that we can offer a more informed analysis of various proposals, ideas, and opinions on the subject."

The meeting will be open. Seating capacity is limited, however, and anyone wishing to attend the conference as an observer should call the Council at 456-6757 by Thursday, April 10 for clearance.

Attached is a list of participants and an agenda for the meeting.

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Attachments: 2

CWPS-37

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CONFERENCE ON CONCENTRATION,
ADMINISTERED PRICES, AND INFLATION

Participants*

Barrett, Nancy - American University

Blair, John - University of South Florida

Cagan, Philip - National Bureau of Economic Research

Collery, Arnold - Council on Wage and Price Stability

Fischer, Stanley - Massachusetts Institute of Technology

Hay, George - Department of Justice

Lanzilotti, Robert - University of Florida

Licari, Joseph A. - Occidental College

Means, Gardiner

Mueller, W.F. - University of Wisconsin

Qualls, P. David - Federal Trade Commission

Rees, Albert - Council on Wage and Price Stability

Scherer, Frederic M., - Federal Trade Commission

Thorp, Willard

Weston, J. Fred - UCLA

*Acceptances as of April 3

CONFERENCE ON CONCENTRATION,
ADMINISTERED PRICES, AND INFLATION

Tentative Agenda

9:30 a.m.	Welcoming Remarks by Albert Rees, Director of the Council on Wage and Price Stability
9:40 a.m.	Opening Remarks
10:00 a.m.	Presentation of Previously Unpublished Empirical Research
11:30 a.m.	Break for Lunch
1:00 p.m.	General Discussion
4:00 p.m.	End of Conference

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

Contact: Linda Potts
964-2951

FOR IMMEDIATE RELEASE April 4, 1975

TREASURY ANNOUNCES LOCK-IN AMPLIFIERS
AND PARTS THEREOF FROM THE UNITED KINGDOM
ARE BEING SOLD AT LESS THAN FAIR VALUE

The Treasury Department announced today that lock-in amplifiers and parts thereof from the United Kingdom are being, or are likely to be, sold at less than fair value within the meaning of the Antidumping Act of 1921, as amended. Notice of the determination will be published in the Federal Register of April 7, 1975.

The case will now be referred to the International Trade Commission for a determination as to whether an American industry is being, or is likely to be, injured. In the event of an affirmative determination, dumping duties will be assessed on all entries of lock-in amplifiers and parts thereof from the United Kingdom which have not been appraised and on which dumping margins exist.

A notice of "Withholding of Appraisement", published in the Federal Register of January 6, 1975, stated that there was reasonable cause to believe or suspect that there were sales at less than fair value. Pursuant to this notice, interested persons were afforded the opportunity to present oral and written views prior to the final determination in this case.

During the period January 1973 through December 1974, imports of the subject merchandise from the United Kingdom were valued at approximately $40,000.

# # #

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

34

FOR IMMEDIATE RELEASE

Contact: Jack Plum
964-2615

April 4, 1975

SECRETARY SIMON HEADS U. S. DELEGATION TO FRANCE, U.S.S.R., INDIA, SRI LANKA, PHILIPPINES

Secretary of the Treasury William E. Simon will head a United States delegation to France, the U.S.S.R., India, Sri Lanka (Ceylon), and the Philippines, beginning in Paris April 8 and 9 for the signing of the OECD Financial Support Agreement, and ending April 25 at the Eighth Annual Meeting of the Asian Development Bank in Manila.

The Financial Support Agreement will establish a financial "safety net" among the industrial member nations of OECD co-operating in energy and general economic policies.

Following signing of the agreement by Secretary Simon, he will leave for Moscow for the Fifth Session of the Joint U.S.-U.S.S.R. Commercial Commission. The Session, which takes place April 10 and 11, will review recent developments in United States-Soviet trade relations, and exchange views on prospects for further development of trade and economic cooperation.

Secretary Simon and Nikolay S. Patolichev, Soviet Minister of Foreign Trade, are Co-Chairmen of the Commission. Other members of the U.S. delegation taking part in the meeting are John K. Tabor, Acting Secretary of Commerce; Jack F. Bennett, Under Secretary of the Treasury for Monetary Affairs; Monroe Leigh, Legal Adviser of the Department of State; Howard L. Worthington, Deputy Assistant Secretary of the Treasury for Trade and Raw Materials Policy; Arthur T. Downey, Deputy Assistant Secretary of Commerce for East-West Trade, and Joel W. Biller, Deputy Assistant Secretary of State for Commercial Affairs and Business Activities.

The Joint Commission, founded at the Moscow Summit Meeting of May 1972, meets at least once yearly, alternately in Washington and Moscow. The Fourth Session took place last May in Washington.

The Simon delegation, as guests of Minister Patolichev, will visit other parts of the Soviet Union, including Kiev, Tashkent, and Samarkand, after which representatives of the State and Commerce Departments will return to the United States, and the Treasury group continue to New Delhi, departing the U.S.S.R. April 15.

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WS-271

Secretary Simon's visit to India and Sri Lanka is at the invitation of the Finance Ministers of those two countries, and in his capacity as U.S. Governor to the various international financial institutions, including the World Bank Group and the International Monetary Fund. He is also one of 20 representatives of the Ministerial Development Committee, associated with the World Bank and the International Monetary Fund.

The Development Committee has decided to give priority to the poorer countries most seriously affected by the quadrupling of oil prices. This committee also is concerned with access to capital markets and certain aspects of the world food supply.

India is the largest of such countries, with a population of 600 million and per capita income of about $100. Sri Lanka is one of the smaller of the poor countries most seriously affected by the oil crisis.

While in these countries, the Secretary will review and inspect projects being financed or under study for financing by the international financial institutions, including the Asian Development Bank, to which the United States is a large contributor. He also will have the opportunity to discuss economic matters with the finance ministers of the two countries.

The Simon party leaves New Delhi for Bombay April 18, where the Secretary will address the Indo-U.S. Chamber of Commerce. The following day the delegation goes to Madras to see first hand another important segment of the varied Indian economy.

The Secretary, spending one day in Colombo (Sri Lanka) April 21, with senior government finance officials, leaves there for Manila to take part April 24 and 25 in the Eighth Annual Meeting of the Asian Development Bank.

In addition to reviewing the Bank's activities and policies, and becoming better acquainted with the problems of the 27 developing Asian countries to be represented at the meeting, the Secretary will discuss development issues with financial officers of other donor countries. The United States has already contributed $291 million to the Asian Development Bank, and the U.S. Congress recently appropriated another $74 million for the Bank's concessional (low interest) and ordinary capital lending operations.

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

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April 7, 1975

EDITORS:

The enclosed speech delivered today by Treasury Secretary William E. Simon may be of extra press interest.

In addressing the American Newspaper Publishers Association in New Orleans, Mr. Simon discusses current economic issues in relationship to the reporting of these developments to the public.

OFFICE OF PUBLIC AFFAIRS

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Department of the TREASURY NEWS
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FOR RELEASE ON DELIVERY

ADDRESS OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE AMERICAN NEWSPAPER PUBLISHERS
NEW ORLEANS, LOUISIANA, APRIL 7, 1975

I certainly welcome this opportunity to speak before such a distinguished gathering of American newspaper publishers.

Over the past two years, I have had the pleasure of working closely with many of your reporters and editors -- first on the energy crisis and now on our economic problems -- and I have gained a much keener appreciation of the influence that your publications have upon our national life. I might add that through my associations with you and members of your staffs, I have also had the good fortune of establishing many new friendships -- one of the greatest rewards of my career in public office.

I came to Washington with the general notion that newspapers tell their readers what policy decisions have been made and then report on the impact of those decisions. As I have learned, however, news reports also play a major role in forming the policies themselves. Every public official soon finds that what he says is often less important than what the newspapers say that he says. Policies are often shaped so that they can be clearly communicated and will receive maximum attention in the press. And the heavy pressures of press deadlines often determine the timing and manner of policy announcements.

In view of this influence and the valuable educational role that the press can play, I thought it might be helpful today to turn the magnifying glass around for a few moments. For the last several months, your newspapers have had it trained on the nation's economy, probing to see how much life it has left. This afternoon, I would like to devote part of my talk to the press itself, addressing in broad terms the state of reporting on the economy and suggesting ways that all of us might help to strengthen public understanding of the crucial issues now at stake.

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This is an incendiary subject, and I want to avoid lighting any fuses. I have no intention of infringing upon your freedoms nor in casting stones. We have had enough of that already. For over a decade, we have witnessed a perilous decline in public confidence in all of our major institutions, including the press. America cannot be a happy, prosperous nation nor can we be an effective force for world peace if we are torn by bitter, internal divisions. In trying to improve public understanding of the economy, then, let us not try to tear each other down but to build up this great country again. Let us respect each other's independence, but let us also find ways of working together to achieve our goals.

I am often frustrated, and I think you are often frustrated in the effort to enlighten the public about the true nature of our economic difficulties and the choices we face for the future. You want to do your job right, just as I do, in a way that avoids public confusion and mistaken policies. Yet your reporters and editorial writers must necessarily jump from crisis to crisis, from one complex subject to the next with little time or space for deep analysis and often, with little prior knowledge of the subject. The inevitable result is that a subject like the economy, which is inherently complex and can be dull, is frequently sensationalized. And too often, as Senator Fulbright remarked, reporters show more interest in the singer than in the song.

How, then, can we do better justice to the problems of economic reporting?

An initial point upon which all of us would agree, I think, is that the major economics writers have become much better acquainted with their subject. There was a time not long ago when Gardner Ackley, Chairman of the Council of Economic Advisers under President Johnson, wished that every economics reporter could measure up to two standards:

-- First, that he had taken an introductory course in economics; and,

-- Second, that he had passed it.

Reviewing the work of the major writers who cover the economic scene in Washington, I can tell you that there has been a marked improvement in the past year. The good journalists are really very good, possessing a solid grasp of economic issues and an ability to communicate with a striking degree of clarity and subtlety.

Television networks are also making notable progress in their economic coverage, especially public television. Economic developments often lend themselves more easily to print than to electronic journalism, but the improvements that the networks have made by bolstering their economic staffs make it clear that television converage can become more effective.

Indeed, while the path of economic journalism in newspapers, radio and television has been steadily upwards, I think all of us would also agree that we are still far from the peak. Time Magazine, in a recent assessment, said that: "since events pushed inflation and recession to Page One and the top of TV news programs, it has become painfully apparent that American journalism, by and large, provides dismal coverage of the Dismal Science." That judgment is rather harsh, but it has a ring of truth that should jar us all.

The steps that might be taken to improve the quality of your writing staffs are obviously a matter for you to decide. You might want to consider additional schooling for some of your writers. In my home state, for instance, Princeton University with the help of the Alfred Sloan Foundation has just set up a fellowship program for economic journalists. You also might want to consider setting up special training sessions for journalists, similar to those now held by the Washington Journalism Center in Washington. You might want to open up the "op-ed" pages of your newspaper to more economics writers or to guest columnists, in the way that Newsweek and the Wall Street Journal have done so successfully. Or you might want to consider ways that the wire services -- the AP the UPI, Dow Jones and Reuters -- can supplement their present news stories on the economy with more in-depth analysis of the economy.

Whatever you decide, I want to make it clear that we at the Treasury Department and elsewhere in government are anxious to be as helpful to you as possible. We would welcome your suggestions on how we might assist you so that you can do a better job. We have a firm policy at the Treasury Department that everyone -- from the top down -- should be fully responsive to requests from the press, and I pledge to you that we will continue to follow that policy to the hilt.

Evaluating Economic News

Another question you face is how to improve your evaluation of the news itself.

One concern shared by many men and women in public life is that economic reporters are highly accurate in reporting the latest economic statistics -- wholesale prices, unemployment, and the like -- but they have considerable difficulty in exploring beneath the surface and explaining their real meaning.

Let me give you one example: corporate profits. Almost every time a major corporation reports high profit levels, the story hits the front page. If profits drop, that's a story for the financial section. And because of inflation, many corporations do show higher profits even though their real earnings are declining. The result is that over time the American public has gained a very distorted view of the corporate profit picture. A few years ago, a poll showed that most people thought corporations reaped a profit of 28 cents on every dollar of sales; in actuality, profits are only about 5 cents on the dollar.

Looking at the past decade, in fact, there has been a dramatic decline in corporate profits, and the implications of this for the future capital investment is one of the most under-reported stories of our time. The high profits we often read about are an optical illusion created by the interplay of outmoded accounting practices and inflation. When those effects are removed, the facts show that after-tax profits have dropped by 50 percent since 1965. Last year, undistributed corporate profits -- the money left for investment in expanded plant and equipment and the creation of new jobs -- was a minus $16 billion. Earnings fell that far short of covering normal depreciation of plant and equipment.

It is not unfair to say that this country has been and is today in a serious profits depression. Yet the American people do not understand this, and until they do understand it, we face the prospect of still more anti-business legislation, and we will find it increasingly difficult to rebuild the foundations of our private enterprise system.

There are many other examples of statistics which are not well understood. For instance, the declining value of the dollar relative to the German mark and the Swiss franc has shaken some observers, when in reality, measured on a trade weighted average basis against all OECD currencies, the dollar stands approximately where it did two years ago. Or consider our balance of payments.

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Three weeks ago, considerable attention was given to a government press release indicating that the deficit in our balance on current and long-term capital transactions had risen to $10.6 billion in 1974 from a $1 billion deficit in 1973. But this is a highly misleading interpretation of the true balance, because this particular statistic excludes most of the identified investments in the U.S. by the oil-exporting nations -- investments which totaled about $11 billion in 1974. By including those investments, you can see that our balance of payments picture would not appear to be so bleak and would not have attracted such dire headlines.

What this suggests is that all of us -- reporters and public officials alike -- have a responsibility not just to report the statistics but to explain them carefully and honestly. Within the government, we are trying to improve our statistical reporting services so that the numbers are more meaningful. We have also taken steps to insulate the professional statisticians, freeing them from political pressures and giving the public greater confidence in the integrity of our measurements. We are mindful of the fact that in the past the government has been frequently accused of applying a liberal dose of optimism to every set of new statistics. George Meany once said that if the government were reporting the sinking of the Titanic, the announcement would read something like this: "The Titanic has stopped in midocean to take on a new supply of ice." Today all major economic statistics are reported straight forwardly, and they are so well protected from leaks to favored newspapers that not even a Cabinet member is allowed to see them before they are given to all members of the press.

While I agree with the need for honesty and candor, there is also such a thing as carrying statistics too far in the other direction. Earlier this year the Administration published some bleak economic projections for the next five years which were simple arithmetic extrapolations but were taken more seriously than they were intended and as a result, caused a certain amount of alarm across the country as well as in Congress. Since that time, I have consistently argued that those numbers should be regarded with a high degree of skepticism -- no one can accurately predict where our economy will be three to four years from now -- and they do not provide a sound basis for legislative policy-making.

Reporting Long-Term Economic Trends

Still a more serious problem than interpreting statistics arises, I think, in evaluating the long-range trends within our economy. I must tell you that I do not think that the press has done a particularly good job in helping the public understand how our economy has fallen into our current mess.

I am not sure why. Perhaps the economy has been regarded as hopelessly complex or dull for newspaper readers, so that economic analysis has been ignored by many newspapers. Perhaps the anti-business bias that undeniably exists among some journalists has steered them away from a hard look at what's been happening within our private enterprise system. Whatever the reason, it is clear that many Americans do not understand how they were suddenly caught in an economic storm. To them, as Churchill once said of Russia, the economy has become a "riddle wrapped inside a mystery inside an enigma."

To me, there is no real mystery about how we got here nor is there any secret about the cure. I appreciate the fact that other people have different opinions, but I would suggest that there are four long-range trends in our society which deserve much closer scrutiny:

-- One has been the enormous growth of government spending and the accompanying growth in Federal deficits. It took this country 186 years for the Federal budget to break $100 billion, only nine more years to break $200 billion, and only four more years to reach $300 billion -- a line we are crossing this year. The government's share of our Gross National Product has nearly tripled in the past four decades -- and unless we arrest the recent spurt in transfer payments, it will near the 60% mark by the end of this century. In 14 of the past 15 years, the Federal budget has been in the red, and our national debt is growing so fast that interest payments on it have reached $36 billion a year. We are in effect living off our inheritance and mortgaging our future at one and the same time. Neither man nor government can continue to live beyond its means for very long -- and if we continue this way, we will lose not only our prosperity but our freedom as well.

-- Secondly, we should recognize that monetary policy has been equally at fault over the past decade. From 1955 to 1965, the money supply grew at the rate of 2½ percent a year, and we enjoyed reasonable price stability. In the decade that has followed, the money supply has been growing at an annual rate of 6 percent a year -- more than double the earlier rate. It is no accident that during a long period of excessive fiscal and monetary policies, as we have had, inflation has become a chronic problem. In fact, if you will look beneath the surface, you will find that the inflation stemming from our fiscal and monetary excesses has been the single most destructive force within our economy - hurting us far more than the recent quadrupling of oil prices, the explosion of food prices, and so on.

-- Thirdly, in a subtle but insidious way, there has been an enormous proliferation in Government regulations in recent years so that they now encumber almost every phase of our business life and cost consumers untold billions of dollars. To rid ourselves of countless rules that cause inefficiencies and drive up prices in transportation, energy and other fields, we must undertake a massive overhaul of our regulatory practices.

-- Finally, we should recognize that by discouraging profits and by encouraging consumption and government spending at the sacrifice of saving and capital investment, we are seriously weakening the foundations of our private enterprise system. The record of capital investment in the United States since the early 1960s has been the worst of any major industrialized nation in the Free World. As a consequence, our productivity is also growing more slowly than elsewhere and our economy has failed to match the growth rate of many other countries.

We simply must reverse these trends if we want to regain our prosperity and retain the premiere economy of the world.

In all of the hand-wringing that is popular today, it may sound strange to hear someone talk of our "premier economy". But it's true, and in tackling our problems, we should never forget it. America is still incredibly strong, powered by the largest and most dynamic free market in the world. In the past 15 years, per capita income in this country has risen by 50 percent. We are still the wealthiest nation the world has ever known, and our citizens are the most affluent. Moreover, even though the problems of unemployment and inflation are especially painful, evidence is gathering on every side that the economy is shifting gears from recession to recovery. We are confident that the recession will bottom out during the middle months of the year, and by the end of 1975, we will definitely be on the road to recovery.

As you can see, I deeply believe that we face both a short-term and a long-term economic challenge. I am confident about our prospects in the short-term: we have the resources, we have the economic strength, and we are moving swiftly in the right direction to correct our problems. But to meet the long-term challenge, we must wake up to the fact that dangerous forces are quietly but busily eating away at the foundations of our economy and could eventually destroy it unless we take effective action. That is why it is so vitally important to avoid steps now -- an even greater budget deficit, for instance, or excessive monetary policies -- that might propel us out of the recession but would only catapult us into a new round of spiraling inflation and still higher unemployment.

My greatest concern about the press today is that it fails to convey a greater sense of perspective to the American people about the choices we face. As George Ferguson, former editor-in-chief of the Montreal Star, has observed about modern reporting: "The sense of continuity, of the steady, implacable flow of history from the past into the immediate present, is largely forgotten...The result is a kind of breathlessness, a panting sense of excitement which we build up almost subconsciously, because that is the way, and the only way...we have been taught to play our roles."

When the press focuses almost entirely on immediate economic news, when in effect it exploits anxiety, it contributes to a process that is potentially lethal for a free society. Time and again over the past few months, those who were so quick to foresee economic disaster -- the preachers of gloom and doom -- were able to grab a headline in our daily newspapers. Think back over predictions for the collapse of the international monetary system as well as predictions of a dollar a gallon for gas, a dollar a loaf for bread, and a dollar a pound for sugar. All of those forecasts were given far more currency than they deserved. And all of them were wrong. More thoughtful analysis, I believe, would have given the American people an understanding of how very unlikely it was that those things would happen, but unfortunately, very little of that analysis was presented.

With prices rising, jobs threatened, and the voices of despair crying out in the press, it is hardly surprising that public confidence crumbled. Inevitably, when the public demands explanations, they are told to blame people, not conditions. The economic process is personalized, not analyzed. And when the public demands solutions, everyone points in one direction: Washington, D.C. Pressures build for "action" by the Federal Government. Few people think very carefully about what kind of action would be beneficial, but almost everyone wants action and they want it immediately. As a result, we tend to make the same policy mistakes that helped to get us into this mess in the first place -- more Government spending, higher deficits, more regulation, and the like. This is the same threat that we face today, except this time, the mistakes could be much larger and they could sacrifice an even larger share of our freedom.

The crux of our problem, it seems to me, is that too many public officials have too long felt that good economics is not good politics. Some of them have adopted a philosophy of spend-and-spend, elect-and-elect, as they scramble to outdo each other in cutting taxes and passing big new spending programs. They also have the mistaken notion that they can raise revenues

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painlessly by taxing corporations instead of people -- as though businesses are not owned, managed and staffed by people and as though their taxes are not paid for in prices charged to people. They fail to recognize that a healthy, growing private economy -- which still supplies 85 percent of all jobs in this country -- does more to help people than anything that government can ever hope to do. I think that the public -- with your help -- is gradually learning the truth behind the hollow promises of Big Government and getting "something for nothing." And if reporting continues to be fair and accurate, the day may come when voting for sound economic policies will be considered politically attractive.

Ladies and Gentlemen: Let me stress once again that my comments today about the press are intended to be constructive. I believe that the coverage of economic events in this country is steadily improving. News stories that preceded the sale of gold to American citizens were truly masterful, giving the public a much better understanding of both the advantages and disadvantages of owning gold. Indeed, I am convinced that the quality of journalism in this country is higher than anywhere else in the world. But let us recognize that in reporting on the economy, reforms and improvements are still very much needed. We are still far short of the goal once set forth for newsmen by Walter Lippmann: "...to bring to light the hidden facts, to set them into relation with each other, and make a picture of reality on which men can act."

And let us recognize one more thing: we are all in the same boat together. The freedom that you cherish for your newspaper -- the freedom of the press that must always be protected in America -- is indivisible from the freedom of our enterprise system and the freedom of each of us as individuals. Those precious freedoms are in jeopardy today. In our desire for instant solutions, instant prosperity, and instant relief from the cares of the world, we are tending more and more to choose the false security offered by big government in exchange for small pieces of our freedoms. It is up to all of us here today -- publishers, reporters, and public servants alike -- to stand up and fight for those freedoms for ourselves and for our children.

Thank you.

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FOR IMMEDIATE RELEASE April 7, 1975

STATEMENT OF
THE HONORABLE WILLIAM E. SIMON,
SECRETARY OF THE TREASURY

It is with a great sense of personal sorrow that I learned of Howard Worthington's death this morning. Howard had a distinguished career, spanning two decades of federal service. The wide range of his experience in international trade brought an added dimension to the Administration's efforts to move towards a new era of trade in a world marked with a growing measure of economic interdependence. This was the task Howard was most committed to, and it was one which he worked at tirelessly. As a valued colleague, but most of all as a friend, he will be missed by everyone who knew him.

On behalf of the Treasury Department, Mrs. Simon and I wish to extend our condolences to Mrs. Worthington and the Worthington family.

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FOR RELEASE ON DELIVERY

REMARKS OF
THE HONORABLE CHARLES A. COOPER
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
BANKERS ASSOCIATION FOR FOREIGN TRADE CONVENTION
AT
THE GREENBRIER, WHITE SULPHUR SPRINGS, WEST VIRGINIA
9:00 A.M., Monday, April 7, 1975

A Perspective on Current International Financial Problems

I am very pleased to have this opportunity to offer some observations on current international financial problems before such a distinguished audience. We have seen remarkable changes recently in international monetary relationships, and this convention provides a welcome occasion for a useful exchange of views between those who view these relationships from a private perspective and those who see them from a public perspective. I am sure that in such an exchange bankers and government officials alike will learn more about the nature of the world -- in the old fable, adding to the number of blind men examining the elephant did make a contribution to human knowledge even though the disagreements were passionate.

The experience of the past year gives us basis for confidence that our financial problems are manageable. There has been a notably successful adjustment to a radically altered situation due in no small measure to the flexibility and creativity shown by private financial institutions. But our mutual challenges remain demanding.

All of us who are players in the arena of international finance realize how essential it is that we continue to respond effectively to the problems arising from the enormous increase in world petroleum prices. These price increases have occasioned abrupt and massive shifts in the pattern of international trade and payments. They have placed industrial countries long accustomed to current the oil exporters and others, and in doing so tends to encumber the Fund's regular lending resources. This problem is further exacerbated by the facts that the oil facility pays a higher interest rate on these guaranteed borrowings than the IMF pays on the use of its regular currency subscriptions, and that a number of major oil facility lenders currently refuse to allow their regular subscriptions to be used by the Fund.

Happily, these shortcomings are now generally recognized. It has been agreed that the oil facility's operations will be improved somewhat this year and that its transitional role will be completed by the end of 1975, by which time it will be phased out.

Yet another imaginative idea sometimes put forward is that the oil consuming countries should seek to reach agreement on their current account objectives in general and on sharing the "oil deficit" in particular. The idea appears to be that industrial countries should devise a formula that would distribute these deficits in an acceptable and equitable fashion. It is argued that without such agreement some countries may not accept the self-discipline necessary to prevent runaway inflation, while others may move so rapidly and insistently to reduce their deficits that they create intolerable adjustment problems for their trading partners. Since the latter would be likely to react in kind, so the argument goes, the world could be plunged into a spiral of escalating trade restrictions and artificial subsidies to exports.

This sort of proposal is intellectually seductive -- but is it really intellectually sound? One difficulty in such approaches is the technical but inescapable problem of defining both the current account position and the oil deficit to be shared. In seeking to measure current account positions, it is difficult to isolate the influence of transitory factors, such as differences in cyclical situations among countries, in order to determine the underlying position. Measuring the oil deficit raises other questions: should the oil deficit be regarded as simply the increase in a country's oil bill, or should it include related new exports to the oil producers, the investments of the oil producers, the interest payments thereon, and so forth?

More fundamentally, this focus on sharing current account deficits as a policy objective ignores the fact that many different balance-of-payments structures are consistent with a satisfactory adaptation to the oil price increases. For example, a relatively strong current account position in an oil importing country need not raise consistency problems so long as that country is willing to provide financing for the consequently enlarged deficits of other consuming countries. Given the range of policy alternatives to achieve consistency, the emphasis inevitably must be on whether countries' policies as a whole are appropriate, rather than on some concept of what countries positions should be, arrived at by mechanistic formulas.

It also must be recognized that to be meaningful, an international agreement on an appropriate sharing of current account and oil deficits would also have to embody agreement on a program of action to correct imbalances. The acknowledged limits on the willingness of countries to adapt fiscal and monetary policies to achieve external objectives, combined with the unacceptability of extensive recourse to direct measures affecting external transactions, would inevitably imply actions by countries to influence artificially the underlying trend of their exchange rates. It seems to me highly unrealistic to suppose that a world which suspended attempts to fix exchange rates even before the onslaught of the oil crisis is now ready to undertake the effort again.

Ideas of the kind I have just been discussing all reflect a concern that something more must be done. Other commentators, however, seek to minimize the problem itself. Their argument is that it is easily within the capability of the industrial countries, if they resume historical rates of economic growth, to transfer real resources, in the form of exports of goods and services, to the OPEC countries to liquidate oil bills. The transfers to be made to OPEC -- estimated at some 2 percent of the industrial countries' GNP -- are said to be relatively no greater than those that would have been required had Marshall Plan aid to Europe been all in the form of loans. On the basis of this reasoning, it is concluded that the consuming countries should accept high oil prices, minimize the structural adjustments implied by these prices, borrow to finance current oil bills, and pay later in real resources.

One pitfall in this approach is that it does not take into account the problems which arise from differences in countries' willingness and ability to borrow. Some countries will be able to borrow but reluctant to do so, while others will be anxious to borrow but unable to do so. In the real world, these differences cannot be eliminated by assertions as to what countries ought to do.

But the major shortcoming of this line of reasoning is that it seriously underestimates the economic costs which the oil price increases levy on the rest of the world. It ignores the inflation and unemployment costs imposed on oil importing countries as they adjust their industrial structures to a major change in the relative price of their inputs. The losses incurred in the process of an abrupt, forced structural adjustment of the entire industrial world should not be minimized. Anyone in Detroit can testify to what high oil prices mean for employment on an auto assembly line. Even when the short-run effects are dissipated, levels of real income in the oil importing nations at any point in time will be substantially lower, not only because of the continuing costs of high oil prices, but also because of the reduced capital stock caused by the transitional adjustment to the high oil prices. Moreover, the potential diversion of real output from domestic consumption to foreign markets can by no means be termed minimal -- last year alone increased oil payments were on the order of 15 percent of world trade.

It is thus important to guard against thinking of costs of 2 percent of GNP as small. If the oil price increases were to be maintainable for a number of years, the result would be the greatest economic misallocation of resources that the world has ever seen. Locking up one of the world's cheapest forms of energy inevitably imposes a worldwide burden of massive dimensions.

While it is important in this troubled period not to chase down blind alleys, it is even more important to take decisive actions to meet real problems.

In the international financial sphere, additional safeguards against the continuing uncertainties inherent in the present dramatically changed situation are desirable. While OPEC's surplus funds can't leave the system in the aggregate, there is some danger that individual oil importing countries might be unable, or fear that they will be unable, to obtain on reasonable terms the financing they need even when their own policies are prudent and appropriate. Insurance against such a risk would help to ensure that national and international policies will be based on confidence not on fear.

Tonight I will be leaving with Secretary Simon for Paris, where on Wednesday he and other ministers of the Organization for Economic Cooperation and Development will

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initial an agreement which, when approved by the Congress and other legislatures, will establish a financial safety net to provide such insurance. That is the $25 billion mutual support fund, proposed by the United States last November, agreed to in principle at high level monetary meetings in January, and subsequently worked out in detail.

This agreement constitutes a key element in the evolution of governmental strategy to protect against the uncertainties now generated by the oil crisis. Having participated in the negotiation of this agreement, I know there is a feeling among prospective adherents that it represents a significant achievement in cooperative international financial arrangements. It is also an important complement to the cooperation in energy policy which is central to resolution of the fundamental problems resulting from the changed energy balance. For countries committed to cooperation in energy, it will provide assurances that financing will be available in case of need. And, by strengthening the confidence of private lenders and investors in the integrity of the system as a whole and in the ultimate strength of individual countries' positions, the fund will make a major contribution to the operation of the world economic system.

We hope that the safety net will not have to be used. If that turns out to be the case, it will have been a costless precaution. If it is utilized, the contribution to world financial stability will be well worth the cost.

Whatever new intergovernmental arrangements are developed, the private financial system will inevitably be called upon to play the major role in channeling OPEC monies to their ultimate employment. To do so will require more of the flexibility and innovation on the part of private institutions which they demonstrated not only last year but earlier. For example, liabilities management, which changed so greatly in the 1960's with the growth of the Eurodollar market and the rapid expansion of new forms of debt instruments, must continue to be adapted to new realities. Asset management also must be adapted to importantly altered circumstances. This is perhaps the more difficult challenge, because some of the familiar yardsticks are no longer applicable. In particular, analysis of country risk has become almost a new ball game.

Traditional risk analysis has related a country's repayment ability to balance-of-payments trends, external debt, and reserve levels. If these traditional yardsticks were rigidly applied, without due regard to the consequences of the existence of a new group of surplus countries, it would be difficult to justify anything beyond a bare minimum of foreign lending. With the increase in oil prices, the trade and current account positions of oil importing countries as a group have turned sharply adverse. Until the time when the OPEC countries are able to absorb imports from consuming countries at the same rate they themselves export, there will inevitably be an increase in the external indebtedness of the oil consuming countries as a group. What must be cranked into credit analysis in these circumstances is that the creditors -- the OPEC countries in the final analysis -- can only call their loans from the oil importing countries as a group by accepting goods and services in payment. The very demand for payment creates the conditions that allow payment to be made. Certainly, they can shift funds from one oil importing country to another -- if it were in their interest to do so -- but this need not cause intolerable strains so long as financing arrangements among the oil importing countries are adequate.

Widespread floating of exchange rates introduces still other variables into the analysis of the risks of foreign lending. Heretofore, the level of a country's reserves, often measured in relation to imports or other such norms, was an important guide to a country's debt service capacity. Individual countries now, however, have the choice of taking the consequences of a deteriorating position "on the rate," rather than by drawing down reserves. There are no "pat" answers as to what any given country will do, and net borrowing by the oil consuming countries as a group remains inevitable, but it is clear that every country has available and useable an additional policy alternative. This greater flexibility means that neither the level of a country's reserves nor changes in that level provide the same guide to a country's credit-worthiness that they once did.

The diminished relevance of these traditional criteria makes it more important than ever to take a fresh look at the risks of international lending.

Of course, commercial risk is always present when lending to business firms or banks. Such normal risks are certainly present in the current difficult situation. The oil embargo, high oil prices, and uncertainty about future energy sources have contributed importantly to the downturn in economic activity and to the pace of structural changes in national economies. In this climate, certain sectors will experience greater difficulties, while others will profit.

None of this, however, has anything particular to do with the over-all external position of a country. It is both interesting and relevant that three of the most highly publicized bank collapses which have occurred in the past year were in Germany, Switzerland, and the United States -- countries which could hardly be regarded as devastated by the oil related events. This merely reinforces the point that bankers, like governments, must pay attention to the fundamentals.

There is a natural resistance to the rather major revisions in our thinking and our practices which are required by the marked changes we have witnessed in our economic order. There is a certain comfort in familiar doctrines and habits no matter how circumstances may have been altered. But I am confident that we can and will make the necessary adjustments, for they are really imposed by external developments.

Governments have had their own problems in adjusting -- most notably to floating exchange rates. You are all aware of the concern that was being expressed recently in Europe about what is described as weakness of the dollar. The dollar, not surprisingly, has significantly strengthened in recent weeks. Despite a good deal of educational effort, far too many still have apparently not yet recognized that there are two sides to every exchange rate and that what is called a weakening of the dollar may more aptly be described as a strengthening of the German mark or the Swiss franc. Even the widespread use of trade weighted exchange rate computations does not seem to have enabled some observers to broaden their vistas from bilateral rates to more representative measures.

Let me conclude my remarks today by briefly rounding out the long agenda of actions needed to cope with the multiple challenges ahead.

The basic challenge is as much domestic as international. Nothing is more fundamental to future domestic prosperity and the stability of international financial relations than bringing the major world economies out of recession without exacerbating a still dangerous inflationery situation. We will find it infinitely more difficult to solve the present complex of economic problems in the context of high unemployment and negative growth. Yet if we can restore growth only at the cost of another inflationary spiral, we will have but substituted one set of problems for another, and find in the end we have choked off the economic recovery we seek.

For developing countries, the challenge is similar. Effective assistance to developing countries hard hit by the increase in oil prices requires a solid foundation. The answer will not be found in oratory about a New Economic Order. The basic requirement remains unchanged: sound domestic economic policies on the part of these countries themselves, to adjust to changed economic conditions, and to promote investment and the increased productivity essential to the realization of their aspirations. But others also must recognize their responsibilities. For the OPEC countries, this means accepting the full implications of their new role. For the world's former creditor countries this means we must not, whatever our own problems, turn inward and backward. We have established a new Development Committee under the aegis of the International Monetary Fund and the World Bank as a major new forum for organizing the needed response. We have high hopes that the work of this new committee will be effective and practical. More action and less rhetoric is the order of the day. We must find concrete solutions to concrete problems.

Finally, we must continue our efforts to conform our international financial system to the realities of the present. The OECD Financial Support Agreement will not replace the International Monetary Fund at the center of our financial system; indeed the job of that institution has never been more demanding or more important. We are seeking to move ahead to reach full agreement on expansion of its resources through a major quota increase. Such an expansion has been agreed in principle, and we hope that the remaining difficult problems of the distribution of individual quotas can be resolved by summer. But, in order to make such an expansion possible, we must move in parallel to reach consensus on a number of key amendments to the present Fund articles of agreement: to establish a permanent council of ministers for the organization to reflect the fact that only in such a forum can the vital decisions of an interdependent world be taken; to eliminate outmoded provisions with respect to the role of gold in the system; to incorporate in the rules provisions which recognize and correspond to the reality of floating exchange rates; and to make the present currency resources of the IMF more useable. Stated so simply, the needed amendments might appear easily obtainable. But what is really at issue is the revision of basic elements of the constitution of the world's most important international financial institution. This is what I mean by governments getting down to fundamentals.

As we approach the agenda ahead, we must always bear in mind that the real challenge is not simply to muddle through the difficulties of this year or next. It is to proceed with a clear vision of our long-run objectives. We must make adjustments in our policies while maintaining the liberal and expanding trade and payments system which has so contributed to the prosperity of the post World War II period. We must avoid indulging our nostalgia for an earlier era by returning to practices and rules which proved inadequate and unsustainable in the past and are incompatible with the demands and realities of the present. And we must resist the temptation in a time of stress to turn to government intervention as the solution to all our problems. The argument for continuing to rely on the liberal market system which has served us so well is like the argument for democracy -- it may not be the best system that is conceivable, but it is far superior to the alternatives.

Thank you.

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

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FOR IMMEDIATE RELEASE April 7, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.7 billion of 13-week Treasury bills and for $2.8 billion of 26-week Treasury bills, both series to be issued on April 10, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing July 10, 1975			26-week bills maturing October 9, 1975		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.492 a/	5.966%	6.16%	96.842 b/	6.247%	6.56%
Low	98.471	6.049%	6.25%	96.755	6.419%	6.74%
Average	98.478	6.021%	6.22%	96.789	6.351%	6.67%

a/ Excepting 5 tenders totaling $1,205,000
b/ Excepting 6 tenders totaling $1,390,000

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 20%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 57,685,000	$ 27,520,000	$ 19,375,000	$ 9,375,000
New York	3,909,155,000	2,154,450,000	3,224,780,000	1,979,780,000
Philadelphia	83,930,000	29,855,000	42,385,000	7,385,000
Cleveland	128,940,000	82,440,000	41,055,000	16,055,000
Richmond	35,760,000	26,990,000	22,270,000	12,020,000
Atlanta	45,875,000	44,110,000	26,975,000	24,975,000
Chicago	381,870,000	136,325,000	239,725,000	61,725,000
St. Louis	46,930,000	29,275,000	31,795,000	15,795,000
Minneapolis	16,055,000	15,605,000	6,565,000	4,565,000
Kansas City	57,660,000	44,230,000	17,515,000	16,515,000
Dallas	31,270,000	25,160,000	9,785,000	9,785,000
San Francisco	249,305,000	84,715,000	677,745,000	642,245,000
TOTALS	$5,044,435,000	$2,700,675,000 c/	$4,359,970,000	$2,800,220,000 d/

c/ Includes $463,815,000 noncompetitive tenders from the public.
d/ Includes $154,560,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press inquiries: 202-964-2615

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Contact: Jack Plum
964-2615

FOR IMMEDIATE RELEASE

April 8, 1975

SUMMARY OF LENDING ACTIVITY

March 18 - April 3, 1975

Federal Financing Bank lending activitiy for the period March 18 through April 3, 1975 was announced as follows by Roland H. Cook, Secretary:

On March 19, the Bank purchased $3.6 million of Small Business Investment Company 10-year debentures at an interest rate of 8%.

On March 21, the Bank entered into a loan agreement with the National Railroad Passenger Corporation (AMTRAK) and the Ford Motor Credit Company under which the Bank loaned AMTRAK $11.2 million for 15 years to finance the purchase of four (4) French turbine-powered trains by Ford for leasing to AMTRAK. The loan is guaranteed by the Department of Transportation at an interest rate of 7.80%.

The Bank also signed a loan agreement with the Government of Brazil, in accordance with the February 3 agreement between the Bank and the Department of Defense, whereby the Bank agreed to a two year commitment to lend $27.5 million to Brazil at a rate of 8.05% with a final maturity of 1984. The first advance against this commitment was made March 31 in the amount of approximately $2.3 million.

On March 25, in accordance with the February 3 agreement between the Bank and the Department of Defense, the Bank signed a loan agreement with the Republic of China whereby the Bank agreed to a commitment to purchase an 8-year promissory note of $45,200,000 with repayment guaranteed by the Department of Defense. An initial drawing of $13,205,000 was made against this commitment on April 1, 1975 at an interest rate of 7.90%.

(OVER)

On March 26, the Bank purchased $500 million of 5-year Certificates of Beneficial Ownership from the Farmers Home Administration at an interest rate of 7.90%, on an annual basis.

On March 27, the Tennessee Valley Authority borrowed $440 million from the FFB; $100 million at 5.76% maturing May 29, 1975, $240 million at 6.02% maturing July 31, 1975, and $100 million at 8.70% maturing March 31, 2000.

On March 31, the Bank advanced $3,064,000 to the Oglethorpe Electric Membership Corporation at 7.00% interest on a quarterly basis. The loan is guaranteed by the Rural Electrification Administration, and matures March 31, 1977.

On March 31, AMTRAK, the National Railroad Passenger Corporation, made a $15 million drawing against the $100 million line of credit signed October 11, 1974 at an interest rate of 6.005%.

For the first quarter of 1975, the Bank made loans totalling over $3.1 billion. Federal Financing Bank loans outstanding as of April 3, 1975 total $6.7 billion; unfilled commitments total $4.3 billion.

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April 4, 1975

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

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FOR RELEASE ON DELIVERY

THE DEPARTMENT OF THE TREASURY
STATEMENT OF WARREN F. BRECHT
ASSISTANT SECRETARY (ADMINISTRATION)
BEFORE
GOVERNMENT INFORMATION AND INDIVIDUAL RIGHTS SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES

APRIL 8, 1975

Madam Chairwoman and Members of this Committee:

I am pleased to represent the Department of the Treasury in responding to your March 20, 1975, invitation to Secretary Simon to receive testimony on our Department's policies and practices relating to assignment of personnel by us or our contractors to overseas areas or countries. Before presenting my opening statement, I would like to introduce my associates who are with me today: Mrs. Esther C. Lawton, the Department's Deputy Director of Personnel; Mr. Thomas P. O'Malley, Assistant Director (Procurement and Personal Property Management); Mr. Theodore A. Wahl, Deputy Director, Office of Middle East Affairs; and Mrs. Bonnie Pounds, Deputy Director, Office of Saudi Arabian Affairs.

In preparing for this hearing, we have reviewed all of the Department's policies, practices and regulations pertaining

WS-274

to employment and contracting for overseas personnel. In this process, we have canvassed each of our Treasury Bureaus and Offices in the Office of the Secretary who have personnel assigned overseas or who engage contractors for personnel overseas. The following responses to the specific questions in your March 20 letter, therefore, represent a composite of departmental and bureau practices:

1. No constraints regarding an individual's racial origin, color, sex, religion or country of birth are included in the Department's policies or practices relating to the assignment of individuals to overseas locations.

2. No consideration is given to any one or a composite of such factors in determining whether or not a particular individual will be assigned to an overseas area, country or international organization. Furthermore, such factors do not influence the total numbers of such categories of individuals given such assignments.

3. The Department imposes no employment constraints in response to requests of foreign host nations or international organizations. Furthermore, to the best of our knowledge, we have not been requested by any foreign nation to restrict the assignment of personnel in their country based on race, color, sex, religion or country of birth.

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4. Question four, regarding legal or administrative authority, is not applicable, since none of the above answers is affirmative.

5. The Department has no written or oral working agreements with overseas contractors which impose any such employment or assignment constraints on the Treasury Department.

To supplement our response to the specific questions raised by the Subcommittee, I would like to make the following additional comments:

First, the Treasury Department feels a strong commitment to its policy of equal employment opportunity. This policy applies to all bureaus and organizational elements and to all employees who are U. S. citizens, whether located in the continental United States, its territories, or in foreign countries. In reviewing the criteria furnished by our bureaus and offices for selection of personnel for overseas assignment, the only additional factors either required or highly desired include, in some instances, language skills for the particular country and medical examinations to determine physical fitness. Otherwise, the selection criteria are limited strictly to technical skills, professional capability, job knowledge, and satisfactory performance evaluations--the very factors which are at the heart of the Civil Service Commission's merit selection and promotion system.

Second, Secretary Simon personally has taken an active interest in the equal employment opportunity program. In a recent statement he reaffirmed his support and reminded Department officials of their continuing obligation to promote the implementation of Treasury's EEO objectives within their respective organizations. The Treasury Department currently has some 134 Affirmative Action Plans in place, not only in Washington, but throughout our field structure. In fact, the Treasury Department engages in a vigorous effort under its Affirmative Action Plan to promote equal employment opportunity and to insure that all of our employment practices are in strict conformance with applicable laws, executive orders, regulations and the spirit of EEO.

Third, in putting Treasury's overseas employment practices in perspective, this Committee should be aware that as of February 28, 1975, we had approximately 900 employees working in U. S. Territories and foreign nations. Of this total, 586 were U. S. citizens working in U. S. Territories. Of the remainder, 46 were foreign nationals and only 274 were U. S. citizens employed in foreign nations. Practically all of these are in either the U. S. Customs Service, the Internal Revenue

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Service, or the Office of the Secretary (primarily Treasury Attaches assigned to foreign embassies). So, overseas personnel in general are a relatively small factor in a department of over 100,000 employees.

Fourth, one area receiving increasing attention in recent months is the Joint Economic Commissions between the United States and various foreign countries, mostly in the Middle East. These Joint Commissions provide a government-to-government relationship across a broad spectrum and relate to the socio-economic development needs of the particular country. Areas of emphasis include industrialization, manpower and education, agriculture, and science and technology. The Treasury Department has either a lead role or a major support role on each of these Joint Commissions, but other relevant government agencies are represented. These include the Departments of State, Commerce, Labor, Agriculture, Interior, HEW and the National Science Foundation. To date, Treasury has not physically assigned individuals to these countries. Plans are underway, however, to open a six or seven person office in Riyadh, Saudi Arabia, to be known as the United States Representation to the Joint Economic Cooperation Commission Office. As you know, these Joint Economic Commissions are a relatively new venture for the United States. In assembling the staff for these Commissions, the Treasury Department intends to work diligently to avoid any of the discriminatory practices outlined in your March 20 letter to us.

Finally, this opening statement has concentrated almost entirely on Treasury's own personnel. As a general rule, Treasury bureaus do not contract with commercial organizations for services to be performed at overseas locations. There have been some occasions for Treasury to obtain contract services on a reimbursable basis through the State Department; however, no personnel assignment restraints or conditions have been established by Treasury in these cases. Contractual services by the Bureau of Government Financial Operations and the Internal Revenue Service have been nominal. In any event, Treasury does not impose policies or procedures relating to contractor assignment of personnel with respect to an individual's race, sex, religion or national origin. In fact, Treasury's procurement offices must include in their formal contract documents the appropriate equal opportunity clauses to assure contractor compliance with Executive Orders 11246 and 11375.

Madam Chairwoman, I am prepared to discuss in more detail the policies and practices of our various bureaus and offices. This concludes my opening statement. I will be pleased to answer any questions that you or the members of your Subcommittee may have.

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
Monday, April 7, 1975

FOR INFORMATION CALL:
(202) 456-6757

COUNCIL ON WAGE AND PRICE STABILITY FILES BEFORE FEDERAL AVIATION ADMINISTRATION

Attached for your information is a filing by the Council on Wage and Price Stability before the Federal Aviation Administration recommending that the proposed regulations regarding aircraft noise retrofit requirements should not proceed.

The Environmental Protection Agency, acting under the Federal Aviation Act of 1958 as amended by the Noise Control Act of 1972, has proposed to the Federal Aviation Administration that the existing noise standards of Part 36 of the Federal Aviation Regulations ("Noise Standards" Aircraft Type Certification") be amended to apply, after June 30, 1978, to existing subsonic turboject aircraft, which do not now meet the standard.

After careful review of the proposed regulations and all supporting economic analysis, the Council has concluded that the proposal does not appear to be justified on economic grounds. In particular, the staff analysis points out that in return for an estimated expenditure of over $800 million, all that will be achieved is a moving forward in time of benefits that otherwise will be achieved under existing standards.

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Attachment

CWPS-38

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BEFORE THE

FEDERAL AVIATION ADMINISTRATION

OFFICE OF THE CHIEF COUNSEL
ATTENTION: RULES DOCKET, AGC-24

COMMENTS OF THE COUNCIL ON WAGE AND PRICE STABILITY
Regarding Proposed Aircraft Noise
Retrofit Requirements

The Council on Wage and Price Stability (the "Council") hereby submits its comments to the Federal Aviation Administration ("FAA") regarding the proposed regulations submitted to the FAA by the Environmental Protection Agency ("EPA") on noise retrofit requirements for civil subsonic turbojet engine powered airplanes. These regulations and the FAA's request for comments thereon were published in the Federal Register on February 26, 1975. See 40 Federal Register 9218.

EPA, acting under the Federal Aviation Act of 1958 as amended by the Noise Control Act of 1972, has proposed that the existing noise standards of Part 36 of the Federal Aviation Regulations ("Noise Standards: Aircraft Type Certification") be amended to apply, after June 30, 1978, to existing subsonic turbojet aircraft, including aircraft that weighs less than 75,000 pounds and foreign aircraft landing and taking off within the United States.

The aircraft noise level reductions required by the proposed regulations would be implemented by the retrofit of airplane engine/nacelles with special sound absorbing materials ("SAM"). One-half of the engine/nacelles of aircraft weighing 75,000 pounds or more would be required to be retrofitted by June 30, 1976. By that same date the remaining engine/nacelles would be required to be scheduled for retrofit installation. Complete compliance by all subsonic turbojet aircraft would be required by June 30, 1978.

The staff of the Council has reviewed EPA's proposed FAA regulations, EPA's supporting economic analysis, and several outside studies of the benefits of aircraft noise abatement and has concluded (i) that the economic benefits are not commensurate with the costs that the proposal would incur and (ii) that, absent substantial as yet unspecified non-economic benefits, the proposal would be unduly inflationary.

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A. The Council has a Statutory Interest in the Rulemaking

The Council on Wage and Price Stability was created by the Council on Wage and Price Stability Act of 1974 (Public Law 93-387) on August 24, 1974. The Council's purpose under the Act is, generally summarized, to monitor the inflationary impact of activities in both the private and public sectors of the economy. In regard to the public sector, section 3(a)(7) of the Act expressly directs the Council 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."

Moreover, in Executive Order 11821, issued November 27, 1974, the President required that all major proposed rules and regulations issued by Executive Branch agencies be accompanied by a statement which certifies that the inflationary impact of the proposal has been evaluated. OMB Circular No. A-107 assigned the Council a major role in reviewing the supporting economic analysis for these statements.

B. Only Limited Benefits Would Result from the EPA Proposal

The proposed regulations would produce both benefits and costs to the public. It is the Council's concern that the benefits, both tangible and intangible, be sufficient to justify the costs that the regulations would impose upon that portion of the public that travels by air. As set forth above, it is our view that adequate benefits have not to date been identified to justify the EPA proposal.

The benefits generated by EPA's proposed standard differ significantly in character from those normally sought as a result of the agency's regulatory activities. First, in contrast to certain substances such as sulfur dioxide or pesticides, or even in contrast to noise levels of the type experienced continuously by workers in certain occupations, aircraft noise at the levels and durations under consideration here is not a hazard to public health. Instead, it is most accurately classified as an annoyance.*/

Second, it is an annoyance affecting a relatively limited number of people -- those living in the

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*/ One study found that the single activity most often mentioned as being disturbed by aircraft noise was TV and radio listening. Tracor, Community Reaction to Aircraft Noise, Vol. 1, Austin, Texas, Tracor, 1970, p. 33.

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immediate vicinity of certain high traffic volume airports. Only approximately 2 1/2 percent of the population presently lies within the NEFdB 30 noise contours, the point established by the Department of Housing and Urban Development as the border between a normally acceptable and normally unacceptable outdoor and indoor living environment.

Third, again, unlike certain other types of pollutants and public health hazards, noise pollution at the levels being considered here does not accumulate in its effects over time to some danger point. Instead it is a completely transitory phenomenon.

Fourth, and perhaps most important, all the projected benefits that would be achieved under the proposed rule would eventually be achieved under existing regulations. The retrofit program merely moves these benefits forward in time. Since December 1, 1969, all newly certificated subsonic transport aircraft categories and subsonic turbojet aircraft have had to meet the noise requirement of Part 36. Since October 26, 1973, all newly produced subsonic transport and subsonic turbojet aircraft have had to meet this standard regardless of when the aircraft category was certified.

Thus, by the end of 1974, all DC-10's, all L-1011's and certain Boeing 747's, 727's and DC-9's already met the standard.

As the aircraft not now required to comply with Part 36 are retired, the benefits that EPA proposes at a high cost will be realized automatically with no additional costs. Thus, the relevant benefits are not the benefits of having quieter aircraft _per se_, but instead the benefits of having quieter aircraft _sooner_ than we otherwise would have them.

Some idea of the advantages that may be expected can be obtained from the EPA _Project Report: Noise Standards for Civil Subsonic Turbojet Engine-Powered Airplanes_ (December 16, 1974). According to Figure 13, at pages 10-20 of that Report, the noise reduction level expected as of January, 1978 with the SAM retrofit will be exceeded without the proposed retrofit by January 1, 1980, provided currently planned other programs are carried out. In short, under the EPA proposal the public will be buying less than a two year advance in benefits.

This difference is illustrated by Figure 1. The situation portrayed here is admittedly simplified.

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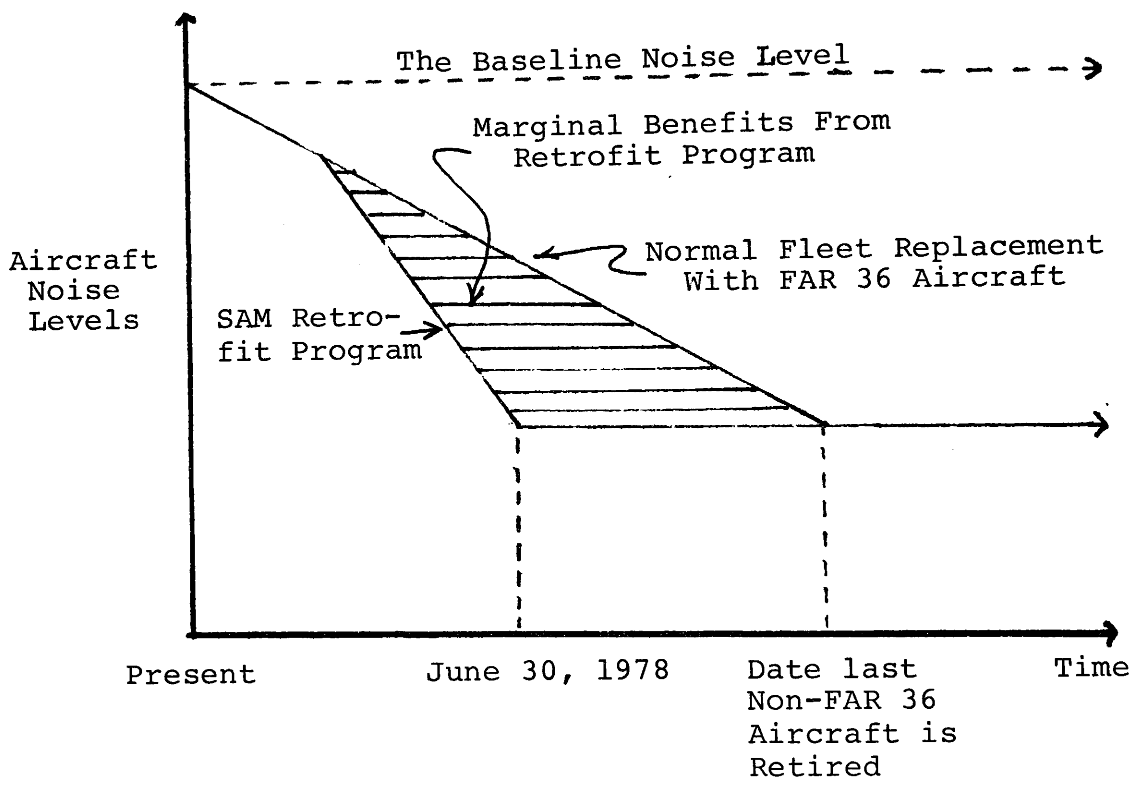
The vertical axis measures the level of aircraft noise; the horizontal axis measures time. Assuming no regulations, aircraft noise would be at some level. We have assumed for the purposes of this illustration that this level would be constant and have labeled this "Baseline Noise Level." As noted above, under regulations already promulgated, noise is scheduled to drop over time. This time path is labeled "Normal Fleet Replacement with FAR 36 Aircraft." The proposed regulations would accelerate the achieving of this level as illustrated by the line labeled "Retrofit Program." (To simplify the presentation we have ignored other proposed programs such as refanning and the two-segment approach.)

The relevant benefits of the retrofit program are not measured by the entire area between the "Baseline Noise Level" and the "Retrofit Program," but merely the shaded area between the lines labeled "Normal Fleet Replacement with FAR 36 Aircraft" and "Retrofit Program."

C. No Adequate Cost-Benefit Analysis of the Proposal has been Undertaken

These caveats are not meant to imply that

Figure 1



Alternative Measures of the Benefits
of Aircraft Noise Abatement

aircraft noise abatement would not produce significant benefits. Indeed, most of the studies we have examined have found statistically significant and measurable benefits to aircraft noise abatement. Our concern with the EPA proposal and supporting analysis is that EPA has failed to attempt to assess these benefits of aircraft noise abatement in any meaningful way. EPA's economic analysis is confined to a cost-effectiveness study where "effectiveness" is measured by the number of people removed from within various noise contours. Costs are not compared to benefits; only the least cost method of attaining certain benefit levels is examined. EPA, of course, recognizes their omission but states:

> Consequently, as in many environmental situations, not having quantitative estimates of the benefits of noise reduction precludes analysis of the amount of noise environment reduction that is justified on a cost-benefit basis; therefore, the subsequent analysis will use a cost-effectiveness analytic framework."
> EPA Project Report, p. 6-3

This is surprising, for of all the different types of pollution, the measurement of the cost of noise pollution is one of the most highly developed. The intrinsic characteristics of aircraft noise abatement mentioned above (that it is not a significant public health hazard, that it is transitory in the environment, that it is localized in effect, and that it is decreasing over time) lend themselves to cost-benefit analysis. Indeed, there is an extensive literature on the subject.*/

In order to show what such a cost-benefit comparison might indicate for the case at hand, we performed our own analysis using the EPA Project Report and the sources cited in the previous footnote. Our results are preliminary, but we believe indicative of what a more extensive analysis might find.

The four studies cited were performed independently, at different times, for four different airports (San Francisco, Minneapolis, Washington, D.C. and Boston) and employed slightly differing methodologies. However, all arrived at their results through multiple

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*/ The literature on the quantitative benefits of aircraft noise abatement is quite extensive. Recent studies include F.C. Emerson, The Determinants of Residential Value With Special Reference to the Effects of Aircraft Nuisance and other Environmental Features, Ph.D. dissertation, Univ. of Minnesota, 1969; P.K. Dygert, Estimation of the Cost of Aircraft Noise to Residential Activities, Ph.D. dissertation, Univ. of Michigan, 1973; I. Price, The Social Cost of Airport Noise as Measured by Rental Changes: The Case of Logan Airport, Ph.D. dissertation, Boston University, 1974; and J.P. Nelson, The Effects of Mobile-Source Air and Noise Pollution on Residential Property Values, Office of the Secretary, Dept. of Transportation, 1975.

regression techniques and employed the hedonic price equation approach to measure the disbenefit of aircraft noise as capitalized in property values. These studies found that property values for single family homes were adversely affected by aircraft noise, and that this affect expressed itself in the form of a 0.4 to 0.5 percent reduction in property value per NEF dB.

By extrapolating from the EPA data, we were able to determine that if nothing is done except to implement the proposed two-segment landing approach, approximately 5.8 million people will be living within the 30 NEF or higher noise contours by 1978. Retrofitting the entire non-Part 36 fleet by 1978 would result in a 2 to 3 NEF dB reduction in noise exposure for these people as compared to the exposure they would otherwise experience. Assuming an average of three persons per household, an average 1973 property value per household of $21,300, and using the consensus estimate of 0.5 percent property value loss per NEF dB, the marginal benefit of retrofit would be a maximum of $617.6 million.*/ Since EPA estimates the cost in 1973 dollars of

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*/ The $21,300 property value estimate was calculated by taking the 1970 average homeowners property value for metropolitan suburbs of $20,800 and the 1970 average rent for metropolitan suburbs of $130, multiplying

(Footnote continued on following page)

retrofitting with quiet nacelles to be $800 million dollars, the benefit-cost ratio is .772.

It should be clear that this estimate is biased upward. First, we have used the upper estimate for property loss per dB increase. Second, the upper NEF dB estimate has been used. Third, the above analysis assumes that the 3 dB improvement continues indefinitely where as in fact, because aircraft not subject to Part 36 are being phased out, the marginal noise improvement due to retrofit would continuously decline and eventually be eliminated as illustrated in Figure 1 above.

We hasten to add that the mere fact that the calculated monetary benefit-cost ratio is less than

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(Footnote continued from previous page

the rent figure by the real estate rule of 100 times monthly rent equal property value, inflating the two estimates by six percent per year (the average rate of property value inflation between 1967 and 1972) to bring the estimates to 1973, and finally by taking the average of the two property value estimates weighted by the percentage of homeowners and renters in the U.S. population in 1970 (62.9 percent and 37.1 percent, respectively). The $617.6 million dollar benefit figure was then estimated by multiplying the property value figure by the number of households within the NEF contours (the 5.8 million EPA population impact figure divided by the three persons per household average for suburban metropolitan areas) and then multiplying this figure by the 1.5% expected property value reduction that would be expected with a 3 dB NEF reduction.

unity does not prove conclusively that the proposed retrofit program should not be implemented.

However, it does mean that intangible benefits worth a minimum of $180 million (and probably much more) in the mind of the decision maker must be found somewhere in order to justify the program. To our knowledge, this point has not been addressed by EPA.

Several additional issues need to be addressed. First, EPA's cost-effectiveness analysis does not separate out the marginal cost and marginal benefit effects of the two-segment landing approach and the quiet nacelles retrofit. In some cases, even the noise abatement due to the continuing phase-out of non-Part 36 aircraft is counted by EPA as part of the benefits. For example, the EPA states (40 F.R. 8221) that "the EPA estimates that the equivalent number of persons exposed to a Day-Night level (ldn) of 75 dB (40 NEF) will be over 800,000 fewer people nationally. This estimate includes, in addition to Quiet Nacelles, the combined effects of the introduction of new quieter aircraft into the fleet and the use of a two-segment approach procedure." One cannot effectively analyze the cost-effectiveness of the quiet nacelles program when benefits of this program are confounded with the benefits of other programs.

Second, although it is true as the EPA Project Report states that aircraft noise is a "technological externality" and that economic efficiency would be improved if the users of aircraft paid the full costs of the service including the noise pollution costs to third parties, in fact, this is not feasible. Indeed, the proposal, if adopted, might generate major distributional inequities. The people who have suffered because of aircraft noise include those property owners whose property has declined in value. However, many affected property owners have already sold their property and borne the resulting loss in value. The retrofit program the EPA is proposing would not benefit these people.*/ Instead, it would create a windfall gain for those who happened to purchase

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*/ According to Goodman, after only five years as much as one-half of the residents of a neighborhood may have moved. John Goodman, "Local Residential Mobility and Family Housing Adjustment" unpublished paper, University of Michigan.

these properties at their reduced values.*/ Furthermore, the costs of the retrofit program likely will be borne by all air passengers, not merely by those traveling on the diminishing portion of the jet fleet that fails to meet the requirements of FAR Part 36. In short, the entire flying population, many of whom are not responsible for the damage, will be "taxed" through higher air fares to compensate a relatively small part of the total population, a large proportion of whom already have been compensated in the form of a reduction in the price they paid for their property.

A further concern of ours is that EPA has not considered the separate effects of their proposal that the retrofit program be applied to jet aircraft of under 75,000 pounds and to the aircraft of foreign air carriers that land at U.S. airports. Both of

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*/ The principle that airports are not liable for property damage to owners who acquired their property after the noise impact became apparent has been upheld in inverse condemnation suits filed against the City and County of Denver, Colorado. For a discussion of easement costs and court litigation due to aircraft noise, see P. McClure, "Indicators of the Effect of Jet Noise on the Value of Real Estate" Rand Corporation, Santa Monica, p. 4117, 1969.

these proposals would have differential impacts which deserve a separate analysis on both the cost and benefit side.

We therefore conclude that, based upon the weight of the evidence, the retrofit program to be implemented by the proposed EPA amendment to Part 36 would be inflationary and should not proceed. We recommend that, if EPA disagrees with this conclusion, it should be prepared to support its argument with the sort of analysis that it has thus far failed to perform.

Respectfully submitted,

George C. Eads
Assistant Director for
Government Operations
and Research
Council on Wage and
Price Stability

Vaughn C. Williams
General Counsel
Council on Wage and
Price Stability

April 4, 1975

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

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FOR IMMEDIATE RELEASE April 8, 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 $5,400,000,000 , or thereabouts, to be issued April 17, 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 January 16, 1975, and to mature July 17, 1975 (CUSIP No. 912793 XE1), originally issued in the amount of $2,205,700,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,700,000,000, or thereabouts, to be dated April 17, 1975, and to mature October 16, 1975 (CUSIP No. 912793 XT8).

The bills will be issued for cash and in exchange for Treasury bills maturing April 17, 1975, outstanding in the amount of $4,606,995,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,624,630,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Monday, April 14, 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 April 17, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 17, 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 April 8, 1975

TREASURY ANNOUNCES INITIATION OF COUNTERVAILING DUTY INVESTIGATION

Assistant Secretary of the Treasury David R. Macdonald announced today the issuance of a "Notice of Receipt of Countervailing Duty Petition and Initiation of Investigation," on glazed ceramic wall tile from the Philippines. The Notice will appear in the Federal Register of Wednesday, April 9, 1975.

The Notice states that on February 26, 1975, a petition in satisfactory form was received alleging that payments or bestowals, conferred by the Government of the Philippines upon the manufacture, production or exportation of glazed ceramic wall tile from the Philippines constitute the payment or bestowal of a bounty or grant within the meaning of the Countervailing Duty Law (19 U.S.C. 1303). Under the statute, the Treasury has six months from the date of receipt, until August 26, 1975, to make a preliminary determination, and 12 months, until February 26, 1976, to make a final determination. If Treasury finds that a bounty or grant has been paid or bestowed, the imports in question would be subject to an additional "countervailing" duty equivalent to the net amount of the bounty or grant.

During the period of January through September 1974, imports of glazed ceramic wall tile from the Philippines were valued at approximately $1.1 million.

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Contact Point JG Wallar
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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR IMMEDIATE RELEASE

Contact: John Plum
964-2615

April 8, 1975

PRESIDENT NAMES SIMON CHAIRMAN OF NEWLY CREATED EAST-WEST FOREIGN TRADE BOARD

President Ford today designated Treasury Secretary William E. Simon as chairman of the newly created East-West Foreign Trade Board. The Board was established by Executive Order March 27 under authority of the Trade Act of 1974.

The new Board replaces the President's Committee on East-West Trade Policy, which had been in existence since June 25, 1974, and of which Mr. Simon was co-vice chairman.

In addition to Secretary Simon, the new Board's membership includes the Secretaries of State, Agriculture, Commerce; the Special Representative for Trade Negotiations; the Director of the Office of Management and Budget; the Executive Director of the Council on International Economic Policy; the President of the Export-Import Bank of the United States, and the Assistant to the President for Economic Affairs, L. William Seidman, who was designated today as Deputy Chairman of the Board.

The new Board is authorized to promulgate "such rules and regulations as are necessary or appropriate to carry out its responsibilities" under the Trade Act and the President's Executive Order on the Administration of the Trade Agreements Program. The Program includes all activities consisting of, or related to, the negotiation or administration of international agreements primarily concerning trade and which are concluded pursuant to the authority vested in the President by the Constitution, the Tariff Act of 1930, as amended, and the Trade Expansion Act of 1962, as amended, and the 1974 Trade Act.

Secretary Simon, in addition to being chairman of the new Board, is co-chairman of the Joint U.S.-U.S.S.R. Commercial Commission, which will hold its Fifth Annual Session Thursday and Friday of this week in Moscow.

The Secretary heads the U.S. delegation participating in the meeting, being held to review recent developments in U.S.-Soviet economic relations, and to exchange views on prospects for further trade development and economic cooperation.

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The Fifth Session will take up the status of major projects under negotiation between U.S. firms and Soviet foreign trade organizations; facilitation of trade missions, trade fairs, and exhibitions organized in the two countries; exchange of economic and financial data helpful to business transactions, and other subjects which either the U.S.S.R. or the U.S. may raise to encourage improvements in economic relations.

As chairman of the President's Economic Policy Board and chief financial officer of the United States, Secretary Simon plays a major role in formulating, recommending and coordinating the nation's international and domestic economic policies. He also has major responsibility for coordinating international energy policies.

Secretary Simon is chairman of the Joint U.S.-Saudi Commission on Economic Cooperation and the U.S.-Israeli Commission on Economic Development; he is the U.S. Governor of the International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank and the Asian Development Bank. He is also a member of the U.S.-Egyptian Commission on Economic Development.

In his capacity as U.S. Governor to the Asian Development Bank Secretary Simon will lead the U.S. Delegation to the Bank's 8th annual meeting at its headquarters in Manila from April 24-26.

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

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FOR IMMEDIATE RELEASE April 8, 1975

RESULTS OF TREASURY'S 292-DAY BILL AUCTION

Tenders for $ 1,500 million of 292-day Treasury bills to be issued to the public, to be dated April 14, 1975, and to mature January 31, 1976, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 3 tenders totaling $30,000)

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	94.699	6.535%	6.93%
Low -	94.656	6.588%	6.99%
Average -	94.679	6.560%	6.95%

TOTAL TENDERS FROM THE PUBLIC RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted
Boston	$ 13,155,000	$ 1,155,000
New York	2,547,205,000	1,270,305,000
Philadelphia	26,555,000	6,055,000
Cleveland	91,485,000	44,465,000
Richmond	61,085,000	12,735,000
Atlanta	12,830,000	12,830,000
Chicago	376,840,000	80,300,000
St. Louis	31,580,000	11,020,000
Minneapolis	36,335,000	1,235,000
Kansas City	16,225,000	5,225,000
Dallas	9,815,000	5,035,000
San Francisco	372,155,000	50,075,000
TOTAL	$3,595,265,000	$1,500,435,000

The $1,500,435,000 of accepted tenders includes 22 % of the amount of bills bid for at the low price and $30,070,000 of noncompetitive tenders from the public accepted at the average price.

In addition, $85,000,000 of tenders were accepted at the average price from Government accounts and from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

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

FOR RELEASE 1:00 P.M. EST

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STATEMENT OF
THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
* UPON SIGNING
THE OECD FINANCIAL SUPPORT AGREEMENT
PARIS, FRANCE, APRIL 9, 1975

Mr. Chairman, Mr. Secretary General, Fellow Representatives:

I am sure that the historic significance of this occasion escapes none of us. At a time of great challenge, creation of a major instrument of international financial cooperation, in which all share both the risks and the benefits, evidences vividly our recognition of our mutual interdependence. It testifies also to our determination to take those steps necessary to ensure that we remain masters of our own fate in the face of economic uncertainties of a dimension and complexity not seen for a quarter century.

This agreement is an important complement to cooperation in energy which is central to resolution of the fundamental problems in that area. For countries committed to economic cooperation, it will provide assurance that financing will be available in case of need. And, by strengthening the confidence of private lenders and investors in the integrity of the system as a whole and in the ultimate strength of individual countries' positions, the Financial Support Agreement will make a major contribution to the operation of the world economic system.

It is our belief that the very existence of the Financial Support Agreement will contribute to this objective and that the assurance provided by this arrangement will itself serve to reduce the likelihood of developments which would require it to be brought into play. Like an insurance policy, it provides protection against unlikely but nonetheless possible contingencies.

This is not a time for complacency or self-satisfaction. We must continue to strive to adapt the basic rules which govern our economic relations to the realities of today amidst the urgent press of day-to-day problems. Our ability to maintain and invigorate our basic commitment to a liberal

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trade and payments system, despite temptations to deviate, will be the true test of our resolve.

It is often said that in every crisis there is opportunity. The energy crisis led to the intensified cooperation which we are consolidating here today. Now, the challenge is to continue together to forge a response which permits us not merely to get through this difficult period but to build a better world, and in so doing, to preserve the basic values which bind us together.

By our presence here, and our signatures, we testify again to our determination to find common solutions to common problems. I am happy to affix my name to this historic document.

* The 24-nation Organization for Economic Co-operation and Development (OECD) was established in 1961. Its purposes are (a) to promote economic growth and employment while maintaining financial stability; (b) to contribute to sound economic expansion in member as well as non-member countries in the process of development; and (c) to contribute to expansion of world trade on a multilateral, non-discriminatory basis.

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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
Tuesday, April 8, 1975

FOR INFORMATION CALL:
(202) 456-6757

COUNCIL ON WAGE AND PRICE STABILITY STUDIES PRICES IN THE BAKED GOODS AND CEREAL INDUSTRIES

Albert Rees, Director of the Council on Wage and Price Stability, announced today that the Council staff has initiated a study of prices in the baked goods and cereal industries.

In making the announcement, Mr. Rees said, "Prices of the ingredients for these products have been falling for the past few months, but this has not yet been reflected in retail prices. We want to know why this is the case and when we can expect retail prices to reflect these lower costs."

In doing the study, the Council has hired David Schwartzman, a professor of economics at the New School for Social Research in New York City as a consultant.

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Hello, I'm delighted to be here tonight. I don't think I've ever seen so many men and women bankers in one room before, and I never may again, so I'll take this opportunity to express my admiration for you and your profession.

I do have enormous respect for your work, because you bankroll the improvements in America. Bankers help to finance many of the good changes occuring in our cities. You help young couples and young businesses get started in life -- help farmers survive the bad years and grow in the good times -- and you respond generously to community and charitable causes.

Banks and bankers have been part of America's life since the beginning. When the early pioneers moved to my homestate of New Mexico, and elsewhere, the cast of characters that won the West always included the cowboy, the local drygoods merchant, and the town banker. Your predecessors were a part of America's early life, and you

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Remarks by the Honorable Francine I. Neff before the St. Louis Chapter, American Institute of Bank Women, St. Louis, Missouri on April 10, 1975 remain a vital part of the Nation today, because your services are basic to society. You finance the future. 13

I suspect women bankers are particularly interested in the future because your numbers will increase in the next decade. Women, in fact, are on the move in many fields.

A few years ago we used to call the 20th century, the "century of the comman man." We might better call it the "century of the common woman"; because for the first time in history, fairly ordinary women -- not geniuses, or saints, or Joan of Arc's, but women like you and me, in sizable numbers, have a real opportunity to play important roles in our community and national life. The token woman is disappearing -- and today tokens are for subways.

Since I live in Washington, D.C., I am particularly aware of women in government. Connecticut, for example, has a woman governor, and New York state has a woman Lieutenant Governor. There are 17 Congresswomen, and one new cabinet officer, Mrs. Carla Hills of Housing and Urban Development. A good friend of mine, Mary Louise Smith, is the first woman chairman of the Republican National Committee, while Mrs. Mary Brooks is the director of the Treasury's Bureau of the Mint, and I am the United States Treasurer and the first woman director of the United States Savings Bonds Division.

Women are moving up in the banking field as well. As you know, the Bank of America has settled a class action suit on behalf of its female employees, which will mean about $10 million in additional income to the women. The Bank also agreed to increase its total proportion of women officers, at all levels, to 40 percent by the end of 1978, with 5 percent of this number to be at the highest levels of management.

In addition, the first bank organized and staffed by women will soon be opened in New York City. The First Women's Bank -- that's the name -- hopes to make a profit, of course, and beyond that, to establish equal opportunities for women in credit and employment. Women-managed banks are also being considered in Chicago, Connecticut, and California.

Today's ambitious young woman is not looking for a job. She is looking for a career. And the doors to the executive suite are open to her.

We women, of course, must do our part. We must be prepared by training and attitude. We must truly accept the idea of both equal rights <u>and</u> equal responsibilities in whatever we do. And I think we must all acknowledge the fact that women <u>are</u> the mothers and men the fathers of our next generation -- and obviously that influences our lifestyles.

I am strongly in favor of all women using their abilities to the fullest. This can be done inside and outside of the home. I personally feel that full time motherhood is an important job that requires as much "smarts", in many ways, as any other important job. Our choices, as women, of how we invest our time and energy may very well be different at different periods in our life.

My own life is the example with which I am most familiar. For years I was a housewife, mother, and dedicated volunteer for everything from the PTA to the GOP. I worked hard both inside and outside of the home, although neither was a salaried job. After my children were grown, I had the opportunity to turn some of my skills and knowledge learned over the years into a fulltime position. So today, I'm still working 10 hours a day, but this time for my favorite government as the United States Treasurer and the Director of the Savings Bonds Program.

Savings Bonds have been part of my life for years. As a teenager, I sold War Bonds. And as a young wife and mother, I <u>bought</u> bonds. Like you, I've known for a long time that it was a convenient, patriotic way for millions of people to put money aside for their future.

Today, as National Director of the Bond Program, I am learning more about <u>another</u> aspect of Bonds, and that is their role in the management of the nation's debt.

United States Savings Bonds provide our government with a stable and efficient way to meet a sizable percentage of our borrowing needs, at a relatively low cost to the Treasury, and consequently to the taxpayer.

To the extent that the Treasury is able to finance through nonmarketable securities, the borrowing is kept out of the marketplace, and thus it does not compete directly with corporate and state local borrowers. And in view of the huge sums currently needed, this part of the bond program takes on added significance.

Let's take a closer look at our public debt.

The public debt outstanding for the nation, at the end of February, had risen to $499.8 billion -- almost $500 billion. Some $200.8 billion of this is held by the Federal Reserve and various government trust accounts, and these do not pose marketing or refunding problems.

Of the remaining $279 billion of the public debt in private hands, about 23 percent -- or 64.8 billion -- is in the form of United States Savings Bonds.

This sizable percentage is far and away the most stable part of our debt structure. Series E and H bonds remain outstanding, on the average, for six years, while other marketable instruments turn over in three years or less. This is important because the cost of borrowing money is one of the key debt management questions we face at Treasury.

So, Savings Bonds are good for America and good for the individual American.

Sometimes I'm asked, "Francine, how can you be so enthusiastic about these six percent interest bonds, when inflation today is over 10 percent?"

Well, that's a <u>fair</u> question, but I'm not sure it's the most important question.

Savings Bonds help to promote thrift, and this is important because the first and basic choice anyone must make is to save or not to save. I think more and more people are realizing that thrift <u>must</u> be part of their general thinking. They must put aside for personal contingencies. They must take some personal responsibility for their future financial security. In other words, they must save.

Viewed this way, six percent of something is clearly better than eight percent of nothing. Any kind of savings is good. I just happen to believe that United States Savings Bonds are one of the best, safest and most convenient ways to set money aside on a regular basis.

Further, the old reliable six percent interest <u>is</u> competitive. A Portland banker, Mr. Tom Prideaux, has added up figures which show that $75 invested monthly in Savings Bonds over the past six years is worth more today than the same amount of money invested in stocks on the Moody's Industrial Index.

Finally, Bonds are a tangible expression of faith in America. That's one reason Bond sales are on the rise. A record 6.9 billion were sold last year -- the highest dollar figure in 29 years. So far this year, we are exceeding even that, with sales of almost 1.9 billion* in the first three months.

I'm very grateful for the support of banks and bankers. You redeem bonds -- support bond drives -- and often head up bond programs. We are very appreciative of this kind of expert help.

Savings Bonds are an optimistic, thriving program -- and I like that. Those of us in Washington are sometimes accused of viewing the world through mud-colored glasses. And it's true that politicians and journalists tend to believe that the end of the world will arrive tomorrow night.

A recent cover of Newsweek magazine proclaims that we live in -- I quote -- "A world of woes." A Time magazine cover features "America and the World: A Moment of Danger." And the daily headlines and nightly newscasts are replete with phrases like "retreat"; "shock"; "economic collapse"; and so on.

Certainly it's true that America has had enormous problems these past few years.

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*1,890,000,000

We fought a war in Viet Nam and charged it.

We sustained world-wide crop failures.

We have had an oil embargo and steeply rising oil prices.

We have had the highest rate of inflation in our peacetime history, and the worst economic slump in a generation.

And this year, for the first time, the Treasury Department is borrowing money that will not be repaid until the 21st century.

These problems are well publicized. But another story escaped the front page headlines. And that story is how well our political and economic system functioned during a period of extraordinary stress.

Let's look at two major economic problems and see what was predicted and what has happened.

As we all know, the price of foreign oil shot skyward this past year. There were widespread predictions of heatless winters, and gasless cars, and a collapse of the international financial system as vast sums of money moved from oil-consuming to oil-producing nations.

What happened to these predictions?

Well, banks and other financial institutions recycled their so-called petro dollars with considerable skill. The oil-consuming nations began making progress in establishing new international agreements. And new oil discoveries outside of the OPEC nations, and increased production inside the United States and elsewhere will mean an eventual lowering of prices.

Further, few of us turned blue this winter, and most of our gas tanks were full -- for a price.

Our economic system shivered -- but it remained alive.

Let's look now briefly at two more economic problems -- inflation and recession.

Some critics have feared that we were on target for another Great Depression of the 1930's.

Of course, we have a very real inflation and a real recession. But the economic slide <u>is</u> halting; factory orders are up; there has been a decline in the rate of inflation; and the prime lending rate has fallen.

As my super boss, Treasury Secretary William Simon recently said, "Our economic recovery is on schedule." The free enterprise system still functions and the laws of supply and demand still apply.

I am concerned, however, that our basic economic system is not very well understood by most Americans.

I am concerned that some critics of our system go beyond attacking specific flaws to claiming that the entire system is unworkable, despite the fact that it has promoted the greatest mass prosperity -- and the highest standard of living -- in the world.

Take the question of profits. To some writers, the concept that businessmen should make a profit is greedy at best and immoral at worst.

Yet it's elementary that if it weren't for profits, we wouldn't have businesses or healthy companies to make our goods and provide our jobs. It is not a healthy business that -- in the vernacular --"rips off" society. It is the unprofitable business that harms us. It is the unprofitable business that must be propped up with someone else's money and that means fewer jobs and other social costs.

The real vice is not making profits but making losses. And perhaps one of our real problems is a lack of knowledge of the basic concepts of the free enterprise system.

Your organization, the American Institute of Bank Women, is orientated towards education, and I applaud you for this. If I could leave you with one major thought, it is this.

We Americans have an incredibly strong nation, both in spirit and in material goods. We have looked long enough on the dark side of our world. Now it is time to speak to the good in each other.

But we need to do more than speak -- we need to act.

As parents, we need to instruct our children in economics. We must transfer to them our knowledge of the supply and demand system; our belief in the free marketplace, and the legitimacy of profit.

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As bankers and business people, it is incumbent on us to take our knowledge and expertise into the classrooms, by actually serving as speakers and lecturers, and by seeing that our elected school board members transmit the need for sound economic education to the teachers.

As citizens, we must demand that the news media make some effort to understand our economic system and to report the whole free-enterprise story.

As voters, we must make certain that our elected officials -- from D.C. to City Hall -- understand that good economics is good politics.

As Americans, we must build on our strengths once more. Let us look back at our 200 years as a growing nation. Then let us look forward with confidence as we go about doing our jobs, raising our families and helping our society.

Thank you.

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

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FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE STEPHEN S. GARDNER
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS,
SUPERVISION, REGULATION AND INSURANCE
HOUSE COMMITTEE ON BANKING, CURRENCY AND HOUSING
THURSDAY, APRIL 10, 1975, 10:00 A.M.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I appreciate the opportunity to appear before you to present the views of the Treasury Department on the subject of variable rate mortgages and the proposal of the Federal Home Loan Bank Board to regulate such mortgages.

I think it is wise to provide equitable regulation setting forth uniform terms and provisions of variable rate mortgages as the FHLBB proposes. It would be very unwise to prohibit by law the natural development of a new variety of ways to finance the purchase of homes. In addition, in view of the recent experience of all of us with inflation and the rising costs of money, utilities, fuel, propoerty taxes and all goods and services, I do not believe

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variable rate mortgages will be very popular for some time. And I am convinced that the homebuyer will not be denied the alternative of selecting a fixed rate mortgage.

Let me expand each of these introductory statements briefly. The high incidence of private home ownership is a unique strength of our economy that has been long recognized and encouraged by Government. It is consistent to expect that equitable regulation of new methods of mortgage financing will be developed by our regulatory agencies.

These agencies must be responsive to changing economic conditions. Consider the variety of consumer financial services that have evolved since World War II. Savings were once almost entirely of the passbook type. Today there are an expanding number of plans and instruments, certificates of deposit in various maturities, passbook savings, payroll savings, and even such experiments as NOW accounts. Similarly, consumer loans and credit systems of all varieties and types have evolved from the simple fixed installment note plan of yesterday.

Financial instruments and plans change as societies' needs change, and it is a great, although understandable, mistake not to recognize that in serving an infinite variety of consumers there exists many specialized markets for individuals with differing financial needs. To prohibit a way to finance homes that has already been useful in commercial finance and may have value in satisfying the needs of some people, seems to me to be wrong. I think market forces will eventually

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determine the place of variable rate mortgages.

The developments I have cited in financial services are the result of competition. Our financial intermediary structure in the United States is just as unique as the incident of home ownership. There are 5,600 savings and loan institutions and mutual savings banks, 14,000 commercial banks and 23,000 credit unions in the country, most of them small. There are many other buyers of home mortgages ranging from insurance companies to government agencies. In this competitive climate, fixed rate mortgages will continue to be readily available as long as there is any consumer demand.

Under the Board's proposed regulations, mortgage lenders will be permitted to use variable rate instruments in which the initial mortgage contract rate may be changed to reflect changes in market rates of interest. Increases in the contract rate could not exceed one-half of one percent in any six month period nor exceed a maximum of two and one-half percent over the life of the mortgage. There would be no limitations on rate decreases. Interest rate adjustments may be effected through any combination of monthly payment and term. The variable rate would be tied to a FHLBB-approved index of market rates. Borrowers would receive 45 days notice of an increase, including full disclosure as to terms and rates, and would be able to prepay without penalty.

The VRM proposal and the Financial Institutions Act each seek to promote increased stability in the financial system during periods of high interest rates. In both cases the desire is to help assure a large and constant flow of mortgage credit which will be less sensitive to variations in interest rates. A constant flow of mortgage credit requires equivalent stability of savings flows which will only be assured when financial institutions are able to complete effectively for savings deposit dollars.

The inability of mortgage-oriented thrift institutions to maintain their competitive strength during periods of high interest rates is a familiar story most recently demonstrated by the events of 1974. The basic structural weakness of these institutions results from portfolio restrictions and resulting inflexibility in the face of changing economic conditions. Mortgage assets which dominate their portfolios are long lived, although not as long as generally assumed, and as a result adapt too slowly to changing interest rates. In contrast, savings deposits represent a pool of highly liquid funds responsive to what are primarily short-term market yields. During periods of high interest rates, short -term market yields rise to levels substantially above deposit rates, and savings are attracted to liquid, short -term investments outside the banking and thrift industries. Because the income of mortgage-oriented institutions is comparatively fixed, they cannot raise deposits rates sufficiently to offer a competitive response to alternative investments. The result is severe deposit outflows and a contraction of the amount of mortgage credit available to the home buyer.

Ceilings on deposit rates were initially intended to assure adequate funds for housing by protecting thrift institutions from competition for savings deposits with commercial banks. The ceilings provide no protection from competition outside the banking system. The increasing ease and convenience of investing in money market instruments, coupled with a greater rate spread between savings deposits and alternative investments during periods of high interest rates, has resulted in the failure of rate ceilings to assure the availability of mortgage credit. Artificial rate regulation will not solve the disintermediation problem. Rather, financial institutions must be able to compete effectively with alternative investments for savings dollars. The expanded range of services concept in the Financial Institutions Act will provide a more constant flow of deposits and will permit payment of more competitive rates to savers.

A related approach is advocated by the Federal Home Loan Bank Board in their VRM proposal which will also act to increase the income available for interest payments on savings during periods of high rates. As I have said, I don't think the VRM proposal should be viewed as either a dramatic boon or threat to housing.

From a consumer standpoint, there must be adequate disclosure of the conditions of the variable rate mortgage. This is already provided for by the Truth-in-Lending Act and the regulations proposed by the Federal Home Loan Bank Board. Further, no borrower should be forced to accept a variable rate morgage. Consumers should have the option of a fixed or a variable rate, and many people will be reluctant to give up the degree of certainty provided by a fixed rate mortgage.

The major supply of new mortgages will continue to be on fixed terms and with fixed interest rates. When interest rates are high, some borrowers may well prefer variable rate mortgages in expectation of rate decreases and a lower initial rate. When rates are low and mortgage money is plentiful, competition among the thousands of financial institutions in this country will assure a wide choice of mortgage options for the consumer. This choice is further guaranteed by a number of continuing Federal programs for the direct purchase of mortgages by the

Federal National Mortgage Association, the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the guarantee of mortgage backed securities for sale to the public debt market.

The VRM proposal would simply broaden the range of choices available to borrowers. However, the fundamental solutions can only come from appropriate fiscal and monetary policies, which will assure greater interest rate stability, and from the kind of restructuring of financial institutions that is proposed in the Financial Institutions Act.

As long as interest rates can vary in reference to changing economic circumstances, the risk or gain inherent in long-term financing will exist. In the past the savings depositor in specialized mortgage lending institutions has assumed much of this risk. The failure of the sytem has required massive amounts of emergency Federal aid,and this has not been an effective remedy.

I believe that the VRM proposal of the Federal Home Loan Bank Board strikes a reasonable balance between two objectives, that of providing a constant flow of mortgage funds and of helping avoid sharply varying payments by borrowers.

There are many types of variable rate mortgages which use different formulas or methods. One or more of these may in time prove superior to the recommendations of the Federal Home

Loan Bank Board. Yet, I see no reason why the proposed regulations should not be implemented as an interim measure.

Variable rate mortgages have not been incorporated in our own reform program because such instruments are generally legal and require no new statutory authority. The FHLBB proposal is a regulatory action and is consistent with present statutory authority and limitations.

Summarizing then, the Treasury Department has no objection to the variable rate mortgage proposal of the Federal Home Loan Bank Board. However, while providing a desirable option for some consumers, it will not make a major contribution to the solution of the twin problems of disintermediation and adequate flows of funds for housing. To meet these objectives more basic structural reform is required. I believe that the broader service base provided by the Financial Institutions Act will in time prove the most effective way to stabilize savings deposit flows. The concept of full service family banking where a single institution holds the mortgage, makes consumer loans, and offers checking account services, NOW account services, and a full range of financial services geared to meet the needs of the individual family, is the best hope for the future.

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

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FOR IMMEDIATE RELEASE April 9, 1975

TREASURY TO AUCTION $1.5 BILLION OF NOTES

The Treasury will auction to the public under competitive and noncompetitive bidding up to $1.5 billion of 2-year notes. The coupon rate for the notes will be determined after tenders are allotted. 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 of foreign and international monetary authorities.

The notes will be Treasury Notes of Series H-1977 dated April 30, 1975, due April 30, 1977 (CUSIP No. 912827 EK 4) with interest payable semiannually on October 31, 1975, and thereafter on April 30 and October 31. They will be issued in registered and bearer form in denominations of $5,000, $10,000, $100,000 and $1,000,000, and they will be available for issue in book-entry form. Delivery of bearer notes will be made on April 30, 1975. Payment for the notes may not be made through tax and loan accounts.

Tenders will be received up to 1:30 p.m., Eastern Daylight Saving time, Tuesday, April 15, 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 Monday, April 14. Each tender must be in the amount of $5,000 or a multiple thereof, and all tenders must state the yield desired, if a competitive tender, or the term "noncompetitive", if a noncompetitive tender. 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.

Competitive tenders must be expressed in terms of annual yield in two decimal places, e.g., 6.45, 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 100.000 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, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $500,000 or less will be accepted in full at the average price of accepted competitive tenders, which price will be 100.000 or less.

(OVER)

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 subdividions 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 Wednesday, April 30, 1975, at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt in cash, in other funds immediately available to the Treasury by April 30, 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, April 25, 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) Wednesday, April 23, 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.

Department of the TREASURY NEWS
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Contact: Robert E.Harper
964-5775

FOR RELEASE MONDAY, APRIL 14, 1975

TREASURY SECRETARY SIMON NAMES ROBERT L. PARMELEE
AS NEW SAVINGS BOND CHAIRMAN FOR WYOMING

Robert L. Parmelee, Vice President and Wyoming General Manager, Mountain Bell, Cheyenne, is appointed Volunteer State Chairman for the Savings Bonds Program in Wyoming 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 throughout the state. He succeeds A. Edward Kendig, President, First National Bank in Wheatland, who has served as Chairman since March 1966. Kendig will receive the Treasury Department "Award of Merit".

Parmelee was born in Denver on August 30, 1918. He was graduated from the University of Denver in 1940. He joined Mountain Bell that same year. During World War Two, he saw service in the European Theater of Operations. Returning to Mountain Bell after the war, Parmelee held various positions in the Plant Department before becoming Denver Employment Manager in 1952. In 1954, he was promoted to General Personnel Supervisor in Denver.

After a year as District Plant Manager in Helena, Mont., he moved to Phoenix in 1957, as District Commercial Manager. From 1961 to 1963, Parmelee worked for parent company American Telephone and Telegraph in New York in Personnel Administration. He returned to Denver in 1963, as General Manager of the Commercial and Marketing Departments, later assuming the same responsibility for the Plant Department. In February 1967, he was appointed Colorado-Wyoming Accounting Manager. He assumed his present post in September 1970.

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Parmelee is active in a number of business, civic and professional organizations, including -- Director, Wyoming Industrial Development Corp.; Director, Wyoming Medical Service; Director, Wyoming Bancorporation; Vice President, Wyoming Taxpayers Association; Board of Governors, Goodwill Industries of Wyoming, Inc., and Chairman of the Board, United Way.

He and his wife, the former Margaret Richardson, have two married daughters -- Mrs. Janice Elaine Groom of Denver, and Mrs. Carolyn Ruth Lawrence of Arlington, Tex.

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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CONTACT: L.F. POTTS
964-2951

FOR IMMEDIATE RELEASE April 11, 1975

DETERMINATION OF SALES AT NOT LESS THAN FAIR VALUE ON CHICKEN EGGS IN THE SHELL FROM CANADA

Assistant Secretary of the Treasury David R. Macdonald announced today a determination that chicken eggs in the shell from Canada 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 April 14, 1975.

A Notice of Tentative Negative Determination was published 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.

During the period January through November 1974, imports of the subject merchandise from Canada were valued at approximately $4.5 million.

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

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FOR IMMEDIATE RELEASE APRIL 11, 1975

PLANS ANNOUNCED FOR SPECIAL PAYMENTS TO
SOCIAL SECURITY AND RAILROAD RETIREMENT BENEFICIARIES

The Treasury Department today announced that planning has been completed for the special, one-time payments of $50 authorized for recipients of social security, supplemental security income, and railroad retirement benefits under the Tax Reduction Act of 1975, Public Law 94-12. The Social Security Administration and the Railroad Retirement Board are cooperating with the Department in the special payment program.

The $50 payments will be issued to the more than 34 million individuals under the above programs who are paid a regular benefit for the month of March 1975. Those individuals who receive benefits under two or more of the programs will be entitled to only one $50 payment. The conventional green Treasury checks will be used for these payments.

Treasury disbursing offices will begin issuing the special payments in early May 1975, subject to enactment of appropriations by the Congress as required by the Act, but due to heavy workloads resulting from tax rebates to individual taxpayers authorized under the same Act, will not complete the mailing until about June 20. Recipients should not be concerned, therefore, if their checks do not arrive during the latter part of May or early June. However, if a payment does not arrive by June 30 individuals entitled to the special payments should contact their regular benefit office.

Attached are questions and answers containing additional information.

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Attachment

<u>Note to Correspondents</u>
Press contacts:
Disbursing Matters (Tsy) - James Abbott, tel: 202/964-2601
Benefit Matters (SSA) - Michael Naver, tel: 301/594-2200

WS-278

QUESTIONS AND ANSWERS ON SPECIAL $50 PAYMENT

1. QUESTION: Is the special $50 payment a social security benefit?

   ANSWER: No. Under the Tax Reduction Act of 1975, Congress emphasized that the $50 payments to people who get social security, supplemental security income, and railroad retirement benefits are not social security benefits. Rather, they are intended to give aged, blind, and disabled people a payment comparable in nature to the tax rebates which the new law provides to those who are working.

2. QUESTION: Why did Congress vote this payment?

   ANSWER: Congress has stated that the purpose of the special $50 payment is the same as that of the tax rebates--to inject new spending money into the economy to help the nation's economic recovery.

3. QUESTION: Where does the money for the special payment come from?

   ANSWER: The payments are financed from general revenues of the U.S. Treasury. They do not come from social security trust funds.

4. QUESTION: Can I receive both the special $50 payment and a 1974 tax rebate?

   ANSWER: Yes, as long as you meet the eligibility requirements for each.

5. QUESTION: When will my $50 special payment come?

   ANSWER: Assuming enactment of the necessary appropriation, the majority of the payments will be mailed out by the Treasury Department beginning in early May and continuing to about June 20. The payment will come automatically. You don't need to apply.

6. QUESTION: What do I do if I haven't received my check by about June 20?

   ANSWER: Please wait until the end of June before you do anything. Your check may be on its way to you. If you get social security or SSI, and the special $50 payment has not arrived by the end of June, call your local social security office. Railroad retirement beneficiaries should get in touch with the nearest Railroad Retirement Board Office.

7. QUESTION: How will I recognize my special $50 payment?

ANSWER: The $50 special payment will be paid in a green U.S. Treasury check mailed in a brown envelope. A notice inside the envelope will tell you what the check is for.

The questions and answers given below apply to railroad retirement benefits as well as social security benefits.

8. QUESTION: My husband and I both get social security. Do we each get $50.

ANSWER: Yes.

9. QUESTION: I'm a widow with eight children and we get social security. Do I get a separate $50 payment for myself and $50 for each child?

ANSWER: Yes. You will get a $50 check for yourself and another check which will include a $50 payment for each of the children.

10. QUESTION: Will my $50 payment be included with my social security check?

ANSWER: No. The $50 payment will come in a separate check.

11. QUESTION: Will the payment count as income to reduce my SSI, food stamps, Medicaid, or any other assistance I may be getting?

ANSWER: No. The Tax Reduction Act expressly provides that the payments will not be counted as income or resource for calendar year 1975 for purposes of such assistance programs. Also, the payments will not count as taxable income.

12. QUESTION: I applied in March for social security, but they told me that I wouldn't get my check until June. Do I get the $50 special payment?

ANSWER: Yes. As long as you applied for social security before April 1, and you receive a check for the month of March issued no later than August 31, you will get a $50 special payment.

13. QUESTION: I received my first social security check April 3. Does this mean that I missed the March eligibility deadline for the $50 special payment?

ANSWER: No. The social security check you received in April is payment for March. Under social security your April 3 check is payment for the previous month.

14. QUESTION: I received my first SSI check in April for the month of April. Does this entitle me to the $50 payment?

ANSWER: No. Since entitlement to SSI benefits is based on need, the check comes in the same month as the month of eligibility to meet current needs. You would have had to get an SSI check for March, issued by August 31, 1975, to be eligible for the $50 special payment.

15. QUESTION: I receive both social security and SSI. Does this mean I will get two $50 payments?

ANSWER: No. Each eligible person gets only one $50 payment.

16. QUESTION: I get a special age 72 payment from social security each month. Do I get a $50 payment too?

ANSWER: Yes.

17. QUESTION: I'm eligible for social security but I didn't get a check for March because I was working. Am I eligible?

ANSWER: No. People whose social security check for March was withheld because of work do not get the $50 special payment.

18. QUESTION: I get social security, but I didn't get a check for March because I owed the Government for a previous month's overpayment. Am I eligible?

ANSWER: Yes. Although you did not receive a check, you were, in effect, paid for March.

19. QUESTION: I am eligible for social security because I am a widow with minor children in my care. However, the children were not in my care in March. Am I eligible?

ANSWER: If you did not receive a check for the month of March because the children were not in your care, you will not receive the $50 special payment.

20. QUESTION: I think I am eligible for social security, but my case is being appealed. Will I get the special payment?

ANSWER: Only if you receive a check for the month of March issued by August 31.

21. QUESTION: I applied for social security in March because I was eligible, but I decided not to take my first check until May. Will I get the special payment?

ANSWER: If you change the month in which you elect your benefits to start from May to March you can get the special payment. See your social security office.

22. QUESTION: I got a social security payment for March but it was reduced because of my work. Do I still get the $50 special payment?

ANSWER: As long as you received a social security check for March, no matter how small, you are eligible for the $50 special payment.

23. QUESTION: As of March, I am entitled to social security father's benefits based on the Supreme Court decision in March. Will I also get the special payment?

ANSWER: Yes, if you applied before April 1 and if your March check is issued by August 31. Even if you applied before April 1 only for lump sum death benefits, that application holds for all social security benefits due you, including the new court-ordered father's benefits.

24. QUESTION: You said the special payments will be mailed out by June 20. How do I get mine if my eligibility is not established until July or August?

ANSWER: After June 20, the special payments will be sent out monthly as the lists are updated. If you receive in August a social security check for the month of March, chances are your special payment will arrive by the end of August or the middle of September.

25. QUESTION: How will the special payment affect the benefit increase social security beneficiaries are supposed to get this year?

ANSWER: The special payment will have no effect on any future benefit increases.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
WASHINGTON, D.C. 20506

FOR IMMEDIATE RELEASE
Thursday, April 10, 1975

FOR INFORMATION CALL:
(202) 456-6757

COUNCIL ON WAGE AND PRICE STABILITY FILES BEFORE THE CIVIL AERONAUTICS BOARD

Attached is a copy of the Council on Wage and Price Stability's answer in support of World Airways' motion for an expedited hearing on its application for a certificate of public convenience and necessity authorizing it to engage in scheduled transcontinental service.

While the Council takes no position at this time on the question of whether this application should be granted, we believe that World Airways' proposal deserves an immediate hearing because they have presented a convincing case that its low fare proposal will attract new passengers without eroding the traffic of existing transcontinental carriers. The Council supports the concept that carriers should be encouraged to be innovative in providing high density, no frills services and the Council strongly urges the Civil Aeronautic Board to grant World's proposal a prompt hearing.

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CWPS-40

Before the
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

Application of WORLD AIRWAYS, INC. for a certificate of public convenience and necessity (transcontinental scheduled service).	)	Docket 27693

Answer of the
Council on Wage and Price Stability
In Support of Motion for an Expedited Hearing

Pursuant to Rule 18(a-2) of the Board's Rules of Practice, the Council on Wage and Price Stability (the "Council") hereby submits its answer in support of the motion of World Airways for an expedited hearing on its application for a certificate of public convenience and necessity authorizing it to engage in scheduled transcontinental service. */

*/ The Council takes no position at this time on the ultimate question of whether World's application should be granted. As noted hereafter, that question turns on the resolution of a number of subsidiary factual questions through the hearing process as required by the Federal Aviation Act. Rather, the Council's present position is simply that that application should be set down for hearing as soon as possible so that the important issues which it raises may be given the consideration by all affected parties which they deserve.

On April 2, 1975, World Airways filed the subject application for a certificate together with a motion for expedited hearing. The carrier proposes to operate daily scheduled services between the New York and Baltimore-Washington metropolitan areas, on the one hand, and the Los Angeles and San Francisco Bay areas, on the other hand. It would utilize so-called satellite airports on the West Coast (Ontario International in the Los Angeles area and Oakland International in the Bay area) and two relatively uncongested airports on the East Coast (Newark International in the New York area and Baltimore-Washington International).

World proposes daily nonstop round-trip service between New York and both West Coast cities and a daily nonstop round trip between Baltimore and Los Angeles. Baltimore-San Francisco service would be on a one-stop basis through a continuation of the Baltimore-Los Angeles service. */

*/ Although World proposes an initial pattern of three daily transcontinental round trips, the certificate it seeks would permit an unlimited expansion of service in the markets. Indeed, section 401(e)(4) of the Federal Aviation Act prohibits the Board from so conditioning a carrier's certificate as to restrict the carrier's right to schedule "as the development of the business and the demands of the public shall require."

The most intriguing feature of World's application is its proposal to break ranks with the existing transcontinental carriers (American, TWA, and United) by offering a genuine price break to persons willing to forego the frills (such as expensive meals and costly reservation systems) usually associated with transcontinental air travel and to accept the loss of comfort and the inconvenience associated with a service operated at a relatively high average load factor of 75 percent.

The price break which World proposes is substantial. World's proposed one-way fare of $89, exclusive of taxes and security charges, is half the existing $180 coach fare, the lowest fare available at all times to all travelers. It is $17 less than the lowest adult promotional fare, the winter weekday demand scheduled fare. Unlike the latter fare, World's fare would be available seven days a week, year 'round and, subject to space availability, requires neither advance reservations nor advance ticketing. Like demand scheduled fares, World's proposal includes a penalty for canceled reservations.

World projects that the new low fare will bring transcontinental air travel within the reach of millions of persons who cannot now afford it. */ The carrier anticipates that the introduction of its service would increase the total pool of passengers available to all transcontinental carriers in much the same way in which transatlantic travel has been stimulated over the years by the availability of low cost charter flights. Not all of the stimulated traffic would be carried by World. It projects an increase in the transcontinental traffic of the Big Three carriers, assuming they match its fares.

At the same time, World forecasts a $2.7 million after-tax profit for its operations, equal to the 12 percent return on investment prescribed by the Board for ratemaking purposes in the Domestic Passenger Fare Investigation. However, World proposes to accept certificate conditions which will place the risk squarely on it, and not the public, if it has miscalculated. It states its willingness to have a load factor standard of 75 percent imposed upon it for

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*/ The carrier contends that, at present fares, transcontinental air travel is within reach of only 30 percent of the East and West Coast households while its service would be affordable by two-thirds of those households.

ratemaking purposes, and its willingness to have the reasonableness of its fares judged on a strict fully allocated cost basis. Its services would not be eligible for subsidy. The authority would be limited to a five-year experimental period. On the other hand, the authority would be permissive, allowing World to withdraw from service if the financial results so require.

We believe this innovative proposal deserves an immediate hearing. In a recent series of pleadings, */ we have told the Board of our statutory duties to monitor the inflationary impact of activities in both the public and private sectors of the economy; to review and appraise the programs and policies of the agencies of the United States for the purpose of determining the extent to which they contribute to inflation; and to report our findings and recommendations to the President and Congress. **/

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*/ See the Council's answer to complaints in Dockets 27607 *et al* and 27657 *et al*.

**/ See the Council on Wage and Price Stability Act of 1974 (Public Law No. 93-387).

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Pursuant to that mandate we have advised the Board and the Congress of our concern with the sharp rise in scheduled air fares, amounting to nearly 20 percent over the last 18 months and have recommended a substantial reduction in airline fares as a small but important step in curing inflation.

At the same time, we understand the concern shared by the Board and the industry over the recent decline in air carrier traffic and the resulting deterioration in carrier profitability. We believe that, while some of the traffic problems can be traced to the major recession being experienced by the economy generally, much of the problem rests closer to home and is tied directly to the recent increases in airline fares.

Accordingly, we believe that a substantial reduction in airline fares is necessary to correct the industry's economic problems by bringing back the discretionary traveler. Thus, we have urged the Board to permit the price mechanism to work by granting to each carrier a great degree of flexibility in establishing non-discriminatory promotional fares, off-peak pricing, and the like.

World has made a strong initial showing that its low fare proposal will attract new passengers to its services without eroding the traffic of the existing transcontinental carriers. The immediate public benefit of the lower airline fares it would offer is obvious. Over the longer term, the competitive spur which would be provided by its entry into markets closed to outside competition for twenty years can only improve the efficiency of all who serve the markets. For these reasons, we urge the Board to set World's application for hearing as soon as possible.

We believe it deserves a hearing for yet another important reason. The airline industry is presently offering far too narrow a range of services. Its "product mix" is aimed, unfortunately, at the high income traveler. In our view, there are many travelers who would be willing to accept a lower level or quality of service at a lower fare were such a service available. Indeed, as World points out, such has been the experience in low-cost charters across the North Atlantic. Thus, we believe that the carriers should be encouraged to innovate in providing high density, no-frills services and urge the Board to grant World's proposal a prompt hearing.

World's proposal also holds out the promise of providing more fuel-efficient service. By operating at

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an average load factor of 75 percent, World estimates that it will consume 46 percent less fuel per passenger than conventional operations at a 55 percent load factor. In view of the national policy to reduce overall fuel consumption by increasing fuel-efficiency, this aspect of World's proposal provides yet another reason for giving the carrier's application immediate consideration.

Finally, as World notes in its motion, its application meets the standards for determining hearing priorities set down in section 399.60 of the Board's regulations and is consistent with the mandates of section 102 of the Federal Aviation Act. In any event, World is entitled to a speedy hearing on its application pursuant to the provisions of section 401(c) of the Act.

We recognize that the proposal is controversial and will engender heated dispute over a wide variety of factual matters -- World's traffic forecast, its costs, the amount of traffic which will be diverted from other carriers, and so forth. Those issues are not ripe for resolution in the present posture of this proceeding. Thus, for example, allegations that World's traffic forecasts are inflated cannot form the basis for a denial of its motion. The very purpose of the hearing which World seeks is to provide a forum for the presentation of evidence leading to the resolution of the factual questions in dispute.

World's application and the accompanying motion contain the supporting material required by the Board's regulations and establish a _prima_ _facie_ case justifying the grant of its application. No more can be required in order for the carrier to obtain a hearing.

WHEREFORE, The Council urges the Board to grant World's motion for expedited hearing and to set its application for hearing as speedily as possible.

Respectively submitted,

George C. Eads
Assistant Director for
Government Operations
and Research

Vaughn C. Williams

Vaughn C. Williams
General Counsel

J. Michael Roach
Assistant General Counsel

April 10, 1975

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FOR IMMEDIATE RELEASE April 14, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.7 billion of 13-week Treasury bills and for $2.7 billion of 26-week Treasury bills, both series to be issued on April 17, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing July 17, 1975			26-week bills maturing October 16, 1975		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.627 a/	5.432%	5.60%	97.092	5.752%	6.02%
Low	98.591	5.574%	5.75%	97.024	5.887%	6.17%
Average	98.600	5.538%	5.71%	97.046	5.843%	6.12%

a/ Excepting 1 tender of $10,000

Tenders at the low price for the 13-week bills were allotted 48%.
Tenders at the low price for the 26-week bills were allotted 29%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 52,760,000	$ 40,460,000	$ 22,335,000	$ 12,335,000
New York	3,882,115,000	2,061,475,000	4,018,800,000	2,328,380,000
Philadelphia	33,620,000	31,070,000	7,465,000	7,165,000
Cleveland	76,460,000	56,460,000	52,410,000	20,110,000
Richmond	42,475,000	33,965,000	40,960,000	24,460,000
Atlanta	58,910,000	54,985,000	31,760,000	30,660,000
Chicago	338,315,000	117,965,000	217,240,000	56,885,000
St. Louis	60,030,000	50,470,000	50,620,000	24,620,000
Minneapolis	23,240,000	23,240,000	19,160,000	19,160,000
Kansas City	71,070,000	64,670,000	29,570,000	26,870,000
Dallas	40,690,000	35,690,000	23,430,000	23,430,000
San Francisco	198,175,000	130,175,000	213,490,000	126,350,000
TOTALS	$4,877,860,000	$2,700,625,000 b/	$4,727,240,000	$2,700,425,000 c/

b/ Includes $547,755,000 noncompetitive tenders from the public.
c/ Includes $195,210,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

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

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FOR IMMEDIATE RELEASE April 15, 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 $5,400,000,000 , or thereabouts, to be issued April 24, 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 January 23, 1975, and to mature July 24, 1975 (CUSIP No. 912793 XF8), originally issued in the amount of $2,201,755,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,700,000,000, or thereabouts, to be dated April 24, 1975, and to mature October 23, 1975 (CUSIP No. 912793 XU5).

The bills will be issued for cash and in exchange for Treasury bills maturing April 24, 1975, outstanding in the amount of $4,605,595,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,469,505,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Monday, April 21, 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 April 24, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing April 24, 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 April 15, 1975

RESULTS OF AUCTION OF 2-YEAR TREASURY NOTES

The Treasury has accepted $1.5 billion of the $4.1 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	7.37% 1/
Highest yield	7.45%
Average yield	7.43%

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	100.009
High-yield price	99.863
Average-yield price	99.900

The $1.5 billion of accepted tenders includes 74 % of the amount of notes bid for at the highest yield and $0.3 billion of noncompetitive tenders accepted at the average yield.

In addition, $0.1 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 6 tenders totaling $315,000

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The Bond Between Us

A friend of mine once said that 10 minutes was enough for anyone to tell what he or she knows; after that, you tell what you don't know.

I agree, so I'll take only 10 minutes of your time to tell you what I know about United States Savings Bonds and why I'm sold on them -- and why I hope you are too.

I am so sold on the Savings Bonds program that I accepted my second appointment, as National Director of the Program, even though it came without a penny of salary. And I remain so convinced of its value that I have traveled over 78,000 miles to 26 states, during the past nine months, to talk about bonds.

These many miles of travel stretch all the way from the beaches of Hawaii to the blizzards of Minnesota to the dining rooms of Dayton. On these trips I have met hundreds of wonderful volunteers like yourselves. And I have had the chance to see again that the real wealth of America is not inanimate money, but our living land, our terrifically alive people, and the

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Remarks by the Honorable Francine I. Neff, TSIA, Dayton, Ohio on April 16, 1975

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extra-ordinary ideas and attitudes that shaped our laws and institutions and propelled us so far in our 200 years as a Nation.

In these travels outside of Washington, D.C., I realize again that America is much more than rising unemployment and sinking Dow-Jones averages. It is 212 million people working, making homes, going to school, building and holding together a great Nation. And we are a great Nation. We set world standards in education, in per-capita income, and in pioneering new fields. We are a country where the medium income of our families has doubled in the past 25 years, even taking inflation into account; a country where 60 percent of American families own their own homes; where even our taxes of all kinds -- compared to our income -- are still the second lowest among the 13 top industrial nations of the world.

United States Savings Bonds are a part of this going and growing America. I suspect they do more to promote the habit of regular saving among Americans than all of the family lectures on thrift ever given. The Oklahoma farmer and the Ohio housewife may have little concept of a Treasury note or a mutual fund investment, but they do know about Savings Bonds. And they do save. In 1974, we had the largest bond sales since World War Two -- almost $6.9 billion.

Savings Bonds are a trusted part of everyone's life -- of America's life -- and they <u>have</u> been ever since most of us were earning our first quarter.

Bonds belong in America. But now and then we need to look again at this old friend of ours and rediscover the "what" and "why" of them. Let's do that right now. Let's look at 3 main reasons why we can urge people to say "yes" to Savings Bonds.

First they are a sound personal investment. They are secure in a troubled world. The payroll savings plan is a painless way to receive six percent interest on your savings. And this can equal a higher rate of interest when you consider the tax advantages -- which most of us are doing with special vigor this tax-paying season.

By the way, I've discovered that some people <u>still</u> don't know about our 6 percent interest, and other people don't understand that you pay no state or local tax on bonds and that you can defer the federal tax until you cash them in.

Bonds are a great way to save, but they can also be an investment. Banker Tom Prideaux of the National Bank of Oregon notes that $75 invested in Savings Bonds monthly since December of 1968 is worth more than $75 invested monthly in stocks making up Moody's Industrial Index. That old reliable 6 percent comes through!

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Savings Bonds also help our government in its debt management, by providing an efficient way to meet a sizable percentage of borrowing needs at a relatively low cost to the nation.

When the Treasury is able to finance through non-marketable securities, the borrowing is kept out of the marketplace and thus does not directly compete with corporate and state and local borrowers. It's comforting to know that about 23 percent of the public debt in private hands is in the form of United States Savings Bonds.

Further, Savings Bonds have a long maturation period. Series E and H bonds remain outstanding, on the average, for six years, while other marketable instruments turn over, on the average, in three years or less. The cost of borrowing money is sizable, so you can see why holding bonds a long time is important to the government, and hence to us as taxpayers.

Finally, these bonds are a tangible expression of faith in America and her future. It is hard for most of us to say, "I love America." It is easier to buy bonds or to work for the program and to show our love that way. Perhaps that's why, in these difficult times, the sale of bonds is rising.

I grew up in the little town of Mountainair, New Mexico, where my parents provided me with a diet of pinto beans and patriotism. The pinto beans were

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sometimes scarce, but never the patriotism. During World War Two, the American Legion asked several of us young girls to sell bonds in front of the Mountainair Post Office on Saturday mornings. We young girls tried very hard to see which of us could sell the most bonds, and my proud father would often round up his cronies and direct them to my table.

I usually sold the most bonds and I thought at the time it was my scintilating smile. Years later I realized that my father was head of the local draft board and this just might have made a difference.

After the war ended and I graduated from college and became a young wife and mother, I cashed in the bonds my father had bought me so that my husband Ed and I could buy our first home. This was in the booming postwar economy years of the 1950's and 60's.

Now today, in my middlessence, I'm selling bonds again. And, from my Washington office as the United States Treasurer and National Director, I see more fully their debt reduction aspect.

Most of us have seen bonds from these 3 viewpoints of the patriotic, the personal benefits, and the boost that bonds give to the country's debt management.

From every standpoint, Savings Bonds make sense -- and dollars. They are good for the individual, good for the country, and good for the future.

But selling bonds by the billions doesn't just happen. It takes a small handful of Treasury people and a very large handful of volunteers. Easily ninety-five percent of the people working for our program are volunteers like yourselves.

I know that we ask a lot of our Bond volunteers. We ask busy, important people to take time to become personally concerned and involved. The only reason we can do this is because we feel our product is so great.

Our national goal in 1975 is to sell at least 6.8 billion in bonds and to enroll 2.4 million new or increased savers. We are starting out very well, with sales of almost $1.9 billion in bonds for the first 3 months. That's the greatest bond sales for this period in 30 years.

As Savings Bonds volunteers, you have an excellent message. You have a ready market. You have some very good Savings Bonds people here in Ohio and you will have the help of a nationwide series of public service ads featuring our Bicentennial slogan "Take Stock in America -- 200 years at the same location."

But the Savings Bonds job can never be done in Washington or New York alone. It is a grass roots program, and the results depend on your personal involvement and the involvement of others like you across the country. Let's roll up our sleeves and roll up a record -- we can do it this year.

1975 is the beginning of our third century as a Nation. It's a super time to join the program. Let's make the bicentennial year a "buy bonds" year as well, by reminding people what we are selling and why we are selling. Let's look up from our desks and out the windows at America -- at her green hills and brown prairies and industrial might -- her ideas and institutions and people -- and remember why it is that the word "America" is such a special word everywhere on earth. And then -- let's get up from those desks and go out and do the job.

Thank you.

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FOR RELEASE ON DELIVERY

Statement of Under Secretary of the Treasury
Edward C. Schmults
Before the Subcommittee on Revenue Sharing
Senate Committee on Finance
Wednesday, April 16, 1975
at 10:00 A. M.

Mr. Chairman, I very much appreciate this opportunity to offer to you and the members of the Subcommittee some reflections based on the Administration's review of the first years of the General Revenue Sharing program. To determine whether, and in what form, the program should be extended past its present expiration in December 1976, the Treasury Department, Office of Management and Budget and the Domestic Council have since last summer all been actively involved in a joint effort to assess this relatively new and unique form of Federal financial assistance. It has been my privilege to serve as chairman of the steering group directing this study. Our review has considered issues raised by interested groups, by members of Congress, by various privately and governmentally-sponsored evaluations of General Revenue Sharing, and by our own staff. We have also taken a look at a large number of approaches offered to strengthen the program.

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I note, Mr. Chairman, that the press release announcing these hearings indicates interest in how this program is being monitored. The Administration, of course, is also vitally concerned that we have sufficient information to know whether the American people are receiving benefits from General Revenue Sharing in proportion to its cost to them. This interest prompted the President to provide for the internal Administration review which I have just described. When one considers the full range of attention being focused on revenue sharing, it could be argued that this is the most closely examined program in the history of Federal assistance. At least four Congressional committees have held hearings on GRS since its enactment, and further hearings in the future are likely. Examinations of various aspects of the program have been or are being pursued by the General Accounting Office, the Advisory Commission on Intergovernmental Relations, the National Science Foundation, the Brookings Institution, the National Revenue Sharing Clearinghouse, as well as a number of other private groups.

We in the Administration have tried to take account of the findings of those studies which are currently available in putting together our proposal to renew revenue sharing. We realize that additional important information may yet appear and are fully willing to take it into account. However, it has been our conclusion that we should proceed to

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seek early renewal of the General Revenue Sharing program. We are doing so, first, because we are convinced that the program has been largely successful in meeting its original objectives. Secondly, State and local governments, in order to make wise use of funds provided through the program, must know about its future by the early fall of this year. Decision-making on the 1977 fiscal year budgets of many States and localities begins early this fall when agencies submit their requests to their budget offices. If no action is taken on renewal of the program by then, States and localities could only rely on the GRS funding that is provided in the present law for the first half of fiscal year 1977.

This need of States, cities, towns, and counties to know about their future revenue sharing entitlements is greater than their need for advance information about categorical aids. Shared revenues usually become a part of the general fund of recipient governments, which is not normally the case with other aids. These funds support essential day-to-day services which would in many cases be eliminated or paid for with higher taxes, were revenue sharing terminated. Dependence on the program to provide vital services is especially great in the Nation's cities where General Revenue Sharing accounts for over a third of all Federal aid and where there is often the most financial pressure.

There is no intention to suggest here that there are only negative arguments, such as the dependency of recipients, to justify renewal of the program. I only make these points to explain our desire for action now. On the whole, the Administration is satisfied that the General Revenue Sharing program has been a major success in accomplishing what it sought to do. We are, of course, aware that there is criticim of the program for not solving serious problems of special concern to some. Our view is that General Revenue Sharing cannot be expected to fill too many roles. In fact, if it is excessively weighted down with various restrictions and incentives to target its impact toward specific problems and groups, the program will lose its ability to fulfill its basic mission.

Its basic objective is to provide a form of Federal financial assistance to State and local governments which can be used flexibly to meet needs which they themselves identify by means of their own choosing. It is obvious how extensive restrictions on the uses to which States and communities put shared funds would limit the ability of the program to play this role. There are hundreds of other categorical and bloc grants which can be used to deal with specific problems or to help specific groups of people. General Revenue Sharing is designed as part of an effort to provide a more balanced array of Federal aid to States and communities. The Administration does not feel that GRS competes with or replaces other aids. Rather, it serves different and equally important functions.

An example of one of those functions involves Revenue Sharing's interaction with those categorical grants which, along with providing assistance, create additional needs which they do not provide the means for meeting. For instance, a program might support the development of science courses in schools without providing the necessary textbooks. Shared revenues can be used to fill in such gaps in need. Further, the incentive of available Federal grant money and the matching requirements often associated with this money, has at times distorted State and local budgetary decision-making so that the real priority needs of their citizens are not being met.

The implementation of the revenue sharing concept of assistance has meant greatly increased Federal help for our cities and counties and for many small communities, as well. Many places with small population in the past have either not been eligible for, or aware of, Federal programs or have been unable to cope with the expensive and burdensome application requirements often associated with them. General Revenue Sharing provides aid free of much of this red tape.

While categorical aids are clearly a necessary part of a balanced system of aid, they tend to be an expensive way to provide aid because of administrative burdens on both the Federal Government and the recipient. By the same token, the Congress and the Federal Executive have rightly been concerned about the often unnecessary costs and uncoordinated effects of grants which overlap and duplicate one another.

A balanced system of Federal intergovernmental aid has become essential to a vital Federal system of decentralized government, with its ability to respond to the diversity of our Nation and to protect our freedoms from the threat of overly centralized power. The enactment of General Revenue Sharing has meant an infusion of funds -- drawn from the generally more efficient, equitable, and economically responsible Federal tax system -- to those governments closest to the people. These funds have helped enable such jurisdictions to perform those public tasks demanded by Americans which they can do best.

I have already mentioned several times the role of shared revenues in meeting "needs". Most of the issues which have surfaced during the Administration's review of this program relate to the degree to which it fulfills various views of what the priority needs of today's America are.

Basically, the response of GRS to serious needs can be evaluated in terms of three considerations (1) Federal as opposed to State and local needs, (2) the uses to which the funds are put, and (3) the pattern in which the funds are distributed among States and communities.

The point is sometimes made that in light of the huge current Federal deficits there are no Federal revenues to be shared. The Administration is, of course, fully aware of and concerned about the state of the national budget. We, however, do not view General Revenue Sharing as a non-essential program, justifiable only when there are Federal budgetary surpluses. In fact, the Administration definitely considers it a critical use of funds since a strong Federal system is clearly a national priority of the first order. Further, when elected State and local officials, who are close to public problems, allocate resources to solve these problems, we feel that there is normally a good return on the money spent.

State and local governments on the whole are currently, and will in the foreseeable future continue to be, faced with deficits. Many surpluses in State and local accounts which we heard so much about a couple of years ago were of a very temporary nature and have since disappeared. These governments have felt the negative impacts of inflation and higher energy costs on their expenditures. Further, the budgets of State governments have suffered from the effects of several longer-run developments in State-local finances. Were the revenue sharing program to be terminated or reduced, they would be forced to cut vital services, raise taxes to provide these services or both. Greater deficits, more borrowing, unemployment in the public and private sectors would also likely result. It is clear that these unhappy events would not contribute to national economic recovery, since State and local expenditures usually supply a major stimulus for the economy. To withdraw GRS would exacerbate the stagnation in these expenditures which has already taken place.

A second way in which one can reasonably assess the degree to which revenue sharing funds are meeting important needs is to look at the problem areas and population groups on which they are being spent.

State governments have reported to the Office of Revenue Sharing that during FY 1974, 82% of shared revenues allocated to them had been utilized for operations and maintenance purposes, while 18% had been expended for capital purposes. Local recipients classified 52% of their expenditures of revenue sharing funds as meeting operation or maintenance needs and 48% going for capital commitments.

As a group, States reported spending over half (52%) of GRS funds in educational uses in the form of assistance for primary and secondary education at the local level. Otherwise, States reported allocation of their GRS monies fairly evenly for public transportation services (8%), health (7%), multi-purpose general government (7%), and social services for poor and aged (6%).

Local governments stated in their use reports to the Office of Revenue Sharing that the largest portion of their entitlements (36%) were for public safety services. Public transportation service (19%), general government capital expenditures (11%), environmental protection services, health (7%), and recreation (7%) accounted for most of the remainder of the funds covered by the Entitlement Period 4 (FY 1974) use reports.

We are all aware of how difficult a task it is to really identify the functional uses to which revenue sharing money is put due to the fact that it usually mingles with the other resources of the jurisdiction. The Administration has considerable confidence in the ability of elected State and local officials to target money onto the real problems which they must face on a day-to-day basis. We are hesitant to slow achievement of this basic GRS role through the application of restrictive guidelines. As I suggested earlier there are other programs to meet specific nationally-identified goals.

The Administration believes that revenue sharing is being successfuly used by the great majority of State and local governments to meet needs of concern to all Americans. The General Accounting Office reports, findings by the Brookings Institution and Office of Revenue Sharing actual use reports all show a considerable amount of shared revenue being devoted to new spending. The program was intended to allow, along with other things, hard-pressed jurisdictions to maintain essential existing services, to reduce taxes, or to prevent tax increases. It has worked to do so. The Brookings study suggests that GRS funds are most likely to be used to substitute for other funds where fiscal pressure is greatest -- at the local as opposed to the State level, among urban as opposed to rural States; and among older, larger, more densely populated jurisdictions, as opposed to those with contrasting characteristics. This illustrates that many States and communities are using GRS to maintain vital services which they might not otherwise be able to do.

We believe that revenue sharing has had a significant benefit for the poor and minorities, and has contributed in an important way to meeting social goals in general. Those funds reported to the Office of Revenue Sharing as spent on

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poor and the aged are not an accurate reflection of the total social impact of the program. For example, States report using over one-half of their shared funds for education -- an expenditure which certainly must be considered of great social importance for all Americans. Funds reported as spent on health, transportation, public safety, environment, recreation, are often of assistance to the underprivileged. For instance, there are cases of GRS money being used under the public transportation category to subsidize transportation for the elderly or expenditures identified as for public safety being devoted to drug abuse programs.

Capital expenditures for hospitals, schools, low-cost housing or for equipment also are often of great benefit to those who are especially needy. Construction projects may be badly needed by citizens of States and communities, since they are often the first items set aside in times of fiscal crisis, and may be also delayed by legal debt limits placed on local governments.

To the degree that there is any hesitance on the part of revenue sharing recipients to spend funds derived from the program on social purpose, this results from a number of circumstances, some of which are: the legal placement of such responsibility at other levels of government; restriction against the use of shared funds for direct welfare payments to individuals by the terms of the State and Local Fiscal Assistance Act itself; confusion about the meaning of the Act's restriction against matching of Federal funds; and uncertainty about the continuation of the program, which steers recipients away from recurring social expenditures. Renewal of the program, along with continuing experience with it should lessen the frequency of the latter two concerns. Finally, it is important to note that regardless of any present hesitance to direct GRS monies into programs to aid the poor and minorities, there is little doubt that the presence of these funds releases other recipient funds for these uses.

It is true that revenue sharing entitlements have been widely used for tax reduction and stabilization, debt avoidance, and for public safety needs. If the Brookings finding are generally applicable, it does not seem that GRS, as once feared, has been widely used for increases in employee pay benefits thus far. It would also seem difficult to argue that public safety expenditures made from revenue sharing entitlements are not usually justifiable and of benefit to all citizens in most places.

State and local jurisdictions are justified in using GRS to reduce excessively high taxes, which are often highly regressive and harmful to the economic life of the community and Nation as a whole. They can, for instance,

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cities, thereby seriously eroding the tax base of the jurisdiction and placing an even greater burden of taxation on the remaining poorer population. Thus, in many cases, tax reduction can be tax reform.

Another important way in which General Revenue Sharing responds to serious needs is the manner in which it distributes funds among our States and communities. The existing formulas, designed in the Congress as a product of competing philosophical, geographic, and jurisdictional interests, are essentially equitable and appear to work reasonably well. The Brookings Institution, the Advisory Commission on Intergovernmental Relations, and the General Accounting Office found that generally greater per capita entitlements go to poorer, as compared to richer, States. For instance, Brookings calculated that for 1972, Mississippi received \$39.90 per capita as compared to \$28.05 for California. Our hard-pressed center cities, according to ACIR and Brookings, also fare better on a per capita basis than their wealthier suburbs and other surrounding areas. Brookings also reports that the current formulas further take into account the high costs of government in urban areas by directing higher than average (as compared to other county areas) per capita amounts of shared revenues into the most densely populated county areas and into the county areas with over one million population. Similarly incorporated areas receive much more per capita than unincorporated areas, and county areas containing the largest city in each State receive higher than the average per capita entitlements for local governments in their State outside of these principal counties. In fact, during 1972 counties falling within standard metropolitan statistical areas received over 70% of local shared revenue. The needs of black Americans are addressed by the formulas' allocation to county areas with the largest non-white population of much higher than average per capita entitlements.

The Administration feels that these descriptions about the distribution of funds among States and localities supports a conclusion that the basic allocation formulas are performing reasonably well in responding to need. This is especially true in light of the difficulty of designing a nationwide formula which meets the varying governmental and fiscal situations across the country, as well as the demands of conflicting interests.

Before concluding my testimony, Mr. Chairman, I would like to comment on the impact which General Revenue Sharing is having on the political process in States, cities, counties, and towns. The first Brookings Institution report found some increase in citizen involvement among a sizable fraction of the jurisdictions included in its sample. A similarly sizeable fraction of more public participation in the making of revenue sharing-related decisions than on other local issues.

It must be admitted that such data provides a less than complete or convincing picture of the impact of revenue sharing on the process of government. However, in a broader sense the State and Local Fiscal Assistance Act of 1972 has helped to revitalize democratic government in the States and communities. The hands of elected officials who are responsible to the voters and who are concerned with a variety of issues have been strengthened in comparison to appointive, single program oriented, often distant Federal, State, and local administrators. After all, it is these elected executives who have the most to say about use of shared funds. Increased public concern about the knowledge of the way decisions are made locally has often resulted from the responsibility of allocating shared revenues among various uses. National interest groups, newly concerned about State and local affairs due to GRS, have helped generate some of this State and local activity, as have the public discussions surrounding publication of various studies of revenue sharing, the original enactment of the bill, and its upcoming renewal. The Administration is hopeful that the extent and effectiveness of citizens involvement will increase with time as citizens and the groups who represent them better learn how, when and where to make their weight felt.

In conclusion, Mr. Chairman and members of the Subcommittee, President Ford and the Administration are generally satisfied with the way in which the General Revenue Sharing program has met its original objectives. It has provided flexible aid within a balanced system of Federal intergovernmental assistance, provided States and localities the means to meet the vital needs of their citizens, strengthened the political process at the governmental levels closest to the people and helped to revitalize our Federal form of government. There is, of course, room for improvement in any program as well as a need to continue to review its effectiveness. The President's proposal to renew General Revenue Sharing soon to be presented to the Congress will address both of these concerns.

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

GRAHAM W. WATT

Director, Office of Revenue Sharing
U.S. Treasury Department
before the
Subcommittee on General Revenue Sharing
of the
Senate Finance Committee

April 16, 1975

Mr. Chairman and members of the Committee:

It is a pleasure for me to report to this Committee, and through you to the American people, on how General Revenue Sharing is meeting the goals and objectives that were set for it in 1972.

Although our program has been in existence less than three years, General Revenue Sharing already has provided substantial fiscal assistance to nearly 39,000 states and localities in the United States. Indirectly, but no less importantly, it has provided important services and public facilities which are of benefit to all American citizens.

With suggestions from members of Congress and assistance from the Administration, the Treasury Department has administered General Revenue Sharing with fidelity to the intent of Congress, with dedication to achieving the purposes of the Act, and with understanding of the diverse needs and capabilities of the nearly 39,000 governments that receive the funds. Table I is a summary of the numbers and types of recipient governments.

Federal Fiscal Assistance

When the State and Local Fiscal Assistance Act of 1972 (P.L. 92-512) established General Revenue Sharing, the staff of the Joint Committee on Internal Revenue Taxation reported that the Act "...intended to help assure the financial soundness of our State and local governments which is essential to our Federal system." (See General Explanation of the State and Local Fiscal Assistance Act and the Federal-State Tax Collection Act of 1972, February 12, 1973.) The Joint Committee report went on to say that "...the presence of large deficits in the Federal budget should (not) in itself preclude Federal aid to State and local governments in view of the vital need for such aid. To preclude such aid would imply that State and local fiscal assistance has a lower priority than all other present expenditures, a position the Congress does not accept."

Accordingly, at a time when Americans were staggering under the mounting burden of regressive state and local property sales, and other taxes, it was thought by Congress and the Administration that the more progressive Federal tax system should be used as a source of relief.

TABLE 1

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OFFICE OF REVENUE SHARING

NUMBER OF GENERAL REVENUE SHARING RECIPIENTS

STATE NAME	STATE	COUNTIES	MUNICIPALITIES	TOWNSHIPS	INDIAN TRIBES & ALASKAN NATIVE VILLAGES	TOTALS
ALABAMA	1	67	399			467
ALASKA	1		126		92	219
ARIZONA	1	14	66		18	99
ARKANSAS	1	75	458			534
CALIFORNIA	1	57	411		54	523
COLORADO	1	62	247		2	312
CONNECTICUT	1		33	149		183
DELAWARE	1	3	54			58
DIST OF COLUMBIA	1					1
FLORIDA	1	66	386		2	455
GEORGIA	1	158	510			669
HAWAII	1	3	1			5
IDAHO	1	44	191		5	241
ILLINOIS	1	102	1,266	1,435		2,804
INDIANA	1	91	556	1,000		1,648
IOWA	1	99	942		1	1,043
KANSAS	1	105	610	1,150	4	1,870
KENTUCKY	1	120	394			515
LOUISIANA	1	62	295		1	359
MAINE	1	16	22	474	3	516
MARYLAND	1	23	150			174
MASSACHUSETTS	1	12	39	312		364
MICHIGAN	1	83	533	1,246	5	1,868
MINNESOTA	1	87	851	1,786	12	2,737
MISSISSIPPI	1	82	277		1	361
MISSOURI	1	114	871	340		1,326
MONTANA	1	56	125		7	189
NEBRASKA	1	93	520	467	3	1,084
NEVADA	1	16	17		17	51
NEW HAMPSHIRE	1	10	13	222		246
NEW JERSEY	1	21	333	232		567
NEW MEXICO	1	32	90		22	145
NEW YORK	1	57	619	930	6	1,613
NORTH CAROLINA	1	100	458		1	560
NORTH DAKOTA	1	53	347	1,360	5	1,766
OHIO	1	88	934	1,320		2,343
OKLAHOMA	1	77	531		25	634
OREGON	1	36	232		4	273
PENNSYLVANIA	1	66	1,013	1,548	1	2,629
RHODE ISLAND	1		8	31		40
SOUTH CAROLINA	1	46	256			303
SOUTH DAKOTA	1	67	301	957	9	1,335
TENNESSEE	1	94	321			416
TEXAS	1	254	993		2	1,250
UTAH	1	29	216		5	251
VERMONT	1	14	55	237		307
VIRGINIA	1	96	228		2	327
WASHINGTON	1	39	266	3	22	331
WEST VIRGINIA	1	55	227			283
WISCONSIN	1	72	574	1,268	10	1,925
WYOMING	1	23	86		2	112
NATIONAL TOTALS	51	3,039	18,451	16,467	343	38,351

Stating that "...it is essential that the amount of new aid should be set at a specific figure so that the cost of the program will be definite and ascertainable beforehand," (op. cit.) Congress appropriated $30.2 billion to be distributed to all units of general government in the United States over five years extending from January 1972 through December 1976. The money was to be allocated according to formulas set forth in the State and Local Fiscal Assistance Act of 1972 using data supplied principally by the U. S. Bureau of the Census.

Since the first checks were mailed, in December 1972, the Treasury Department's Office of Revenue Sharing has distributed $18.9 billion. To allocate and distribute the money, we have developed a simple procedure that follows the law's requirements for accurate data, regular quarterly issuance of checks, and reporting requirements for recipient jurisdictions.

The normal revenue sharing cycle is related to the Federal fiscal year. In February of each year, the Office of Revenue Sharing obtains, principally from the Bureau of the Census, the updated data that is to be used to calculate each government's share of the revenue sharing appropriation for the forthcoming year. We then review these data elements with each State and local government and, in cooperation with the Census Bureau, make any corrections needed to insure the data's accuracy. In April, we compute the amounts to be paid during the coming year and we notify each government of its expected amount: at the same time, we provide them with their Planned Use Report forms to complete, publish in a local newspaper and return to the Office of Revenue Sharing. At the end of June, each government is sent the form on which to report its expenditures and appropriations of revenue sharing funds during the fiscal year ending June 30th. After the Planned and Actual Use reports have been received, the Office of Revenue Sharing makes the first quarterly payment for the new fiscal year, in the first week of October.

The formula that allocates General Revenue Sharing among all general governments has been judged satisfactory by most recipients.

The amount to be distributed for each entitlement period first is allocated among the states according to the three factor Senate formula (population, tax effort and income), and then is again allocated among the states according to the five factor House formula (population, urbanized population, per capita income, state income tax collections, and tax effort). The higher of the two amounts is selected for each state. Since the sum is greater than the entitlement period total appropriation, each amount is scaled down proportionately. If the three factor formula is used for either Alaska or Hawaii, a cost of living adjustment is then applied.

After this interstate allocation, one third of each state area amount is paid to the state government, and the remaining two-thirds is apportioned among units of local government within the state. The amount to be allocated to units of local government is divided by the population of the state to establish the per capita entitlement for all governments within the state.

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The local government amount is first allocated to county areas. If this calculation allocates to any county area an amount which, on a per capita basis, exceeds 145% of the statewide local per capita entitlement, the county area amount is reduced to the 145% level and the resulting surplus amount is shared proportionately by all the remaining unconstrained county areas within the state. Similarly, if any county area is allocated less than 20% of the statewide local per capita amount, its allocation is increased to the 20% level and the resulting deficit is taken proportionately from all the remaining unconstrained county areas within the state.

Each county area allocation is then divided into four parts: First, an amount for Indian tribal governments or Alaskan native villages is determined according to the ratio of tribal or village population to the total population of the county area.

Then from the remainder, a township allocation is determined on the basis of the ratio of all township adjusted taxes to the total of adjusted taxes in the county.

Next, a county government share is determined similarly, on the basis of county government adjusted taxes.

The remaining amount is for the other units of local government. The allocations for cities, towns, and townships are calculated using similar procedures and applying the 145% maximum and 20% minimum constraints.

This intrastate allocation process is illustrated in the following Figure I.

Although the allocation procedure has been found generally effective, equity would be improved if the maximum constraint were raised. This would permit more money to flow to some larger urban areas, where needs for services far outstrip the ability of local governments to meet the resulting costs.

The allocation and payment system outlined in our Act is objective and predictable. It replaces with published formulas and data and multi-year appropriations the personal discretion and fluctuating funding found in some federal assistance programs.

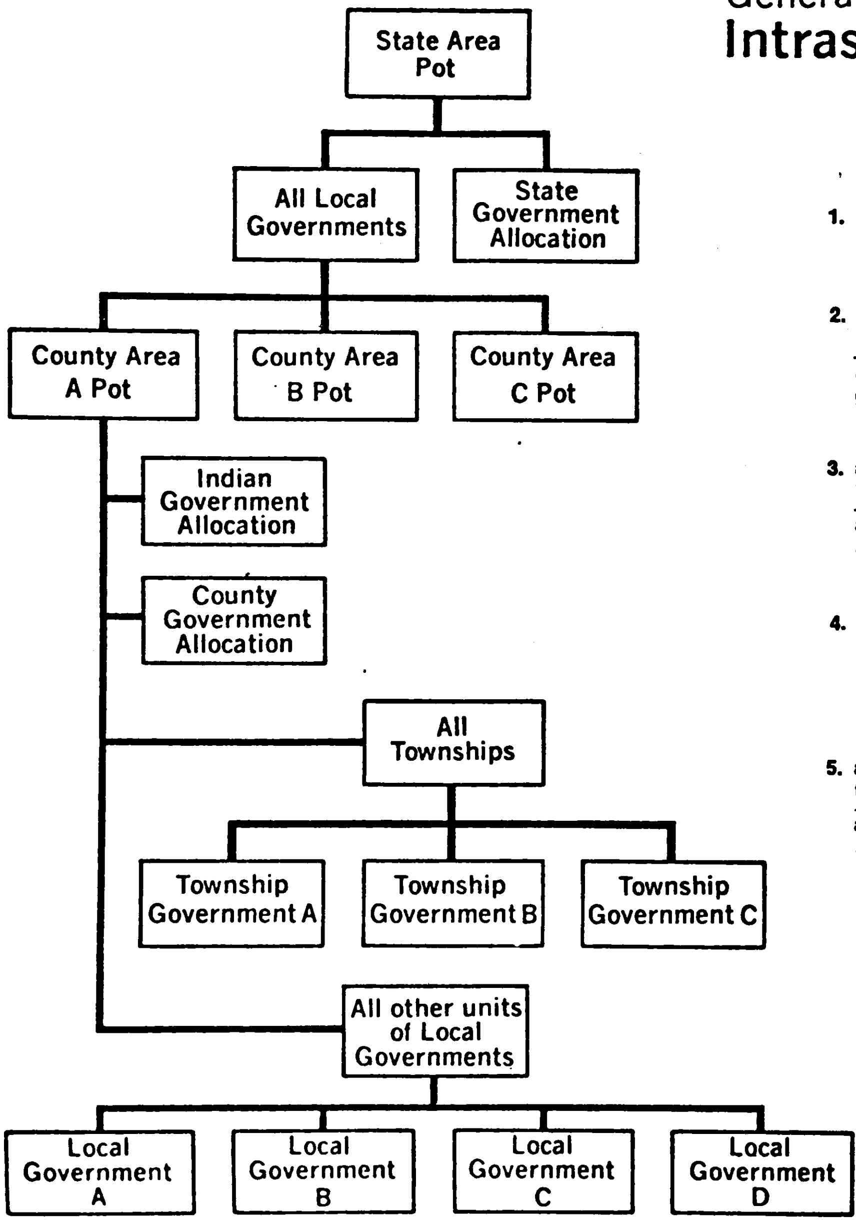
General Revenue Sharing relies upon locally-established priorities responsive to individual communities' real needs instead of on Federal prescriptions developed for universal application. It encourages orderly state and local planning, for officials know in advance, how much money they are to receive and when it will be paid to them. Its procedures are so easy to understand and follow that recipient governments do not need to employ additional, expensive staff to cope with Federally-designed paperwork.

Universal Eligibility

Another objective of General Revenue Sharing is to provide Federal fiscal assistance to all units of general government in the United States.

Most other Federal aid programs are targeted at one or another specific level of government or at independent agencies having limited areas of functional responsibility. Each of the hundreds of categorical aid programs addresses a particular need that may exist in only a few jurisdictions. It is difficult for many states and for local governments to identify sources of

General Revenue Sharing
Intrastate Allocation Process



1. 1/3 to state governments—2/3 to all other governments.

2. $$\frac{\text{allocation to the county area}}{\text{allocation to all local governments in state}} = \frac{\text{population of the county area X its general tax effort factor X its relative income factor}}{\text{the sum of the above products for all local governments in the state}}$$

3. $$\frac{\text{allocation to the individual Indian government}}{\text{allocation to the county area}} = \frac{\text{resident Indian population in the county area}}{\text{total county area population}}$$

4. $$\frac{\text{allocation to the county government}}{\text{allocation to the county area}} = \frac{\text{adjusted taxes of the county government}}{\text{adjusted taxes of all units of local government in the county area including the county government}}$$

5. $$\frac{\text{allocation to all townships in the county area}}{\text{allocation to the county area}} = \frac{\text{aggregate adjusted taxes of all townships in the county area}}{\text{adjusted taxes of all municipalities, all townships, and the county government in the same county area}}$$

$$\frac{\text{allocation to an individual township}}{\text{allocation to all townships in the county area}} = \frac{\text{population of the township X its general tax effort X its relative income factor}}{\text{the sum of the above products for all townships in the county area}}$$

6. $$\frac{\text{allocation to an individual municipality}}{\text{allocation to all municipalities in the county area}} = \frac{\text{population of the municipality X its general tax effort factor X its relative income factor}}{\text{the sum of the above products for all municipalities in the county area}}$$

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grants, to prepare and cope with the applications and to comply with the diversity of Federal regulations and procedures that apply to all of these programs. Too often, only the more affluent, sophisticated, larger states, counties and cities can compete successfully.

General Revenue Sharing, on the other hand, was conceived with the idea that since Americans in all communities have needs which require public service and since relatively few of these communities can participate in categorical aid programs for reasons I have just cited, then, some basic assistance should be provided to all.

General Revenue Sharing is the only program that provides Federally-collected revenues to all units of general government: large and small, urban and rural, and in all geographical areas. Nearly 39,000 states, counties, cities, towns, townships, Indian tribes and Alaskan native villages are the beneficiaries of shared revenues. Table 2 summarizes payments through April 7, 1975, by type of government.

The Locus of Decision-Making

When the State and Local Fiscal Assistance Act was enacted, it was understood that decisions about how shared revenues should be used were to be made by the recipient governments and not by the Treasury Department. Subject only to the specific restrictions that protect the rights of all persons and with the exception of operating and maintenance expenditures in a few areas of local government activity, the money distributed through General Revenue Sharing is to be spent as the responsible officials of recipient governments see the needs for which to spend it.

Priorities for uses of the money are set locally; and the citizens of each community will hold their own officials accountable for the decisions made.

It is axiomatic to say that a democratic system cannot survive for long when citizens do not control those who manage the public's business. Since public business is largely influenced by the purposes for which funds are available, voters tend to become disenfranchised when the locus of financial decision-making is removed from their control.

Over the past several decades, as more and more Federal aid programs were developed to meet more and different needs, power and authority have been accumulated in Washington at an ever-increasing rate. General Revenue Sharing was intended to help to reverse this trend.

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TABLE 2

OFFICE OF REVENUE SHARING

AMOUNTS PAID RECIPIENTS

from Jan 1, 1972 thru April 7, 1975

STATE NAME	STATE $	COUNTIES $	MUNICIPALITIES $	TOWNSHIPS $	INDIAN TRIBES & ALASKAN NATIVE VILLAGES $	TOTALS $
ALABAMA	$ 106,595,657	$ 79,811,942	$ 133,713,837	$	$	$ 320,121,436
ALASKA	8,151,177		15,610,757		502,614	24,264,548
ARIZONA	62,746,495	50,361,909	69,635,925		5,473,525	188,217,854
ARKANSAS	69,510,107	70,833,435	55,238,944			195,582,486
CALIFORNIA	670,854,042	809,818,743	531,332,619		439,280	2,012,444,684
COLORADO	65,926,982	46,565,115	85,251,972		125,967	197,870,036
CONNECTICUT	79,662,535		85,046,335	74,404,145		239,113,015
DELAWARE	21,513,093	20,746,117	14,328,555			56,587,765
DIST OF COLUMBIA	84,346,800					84,346,800
FLORIDA	182,940,956	162,485,967	204,068,115		67,526	549,562,564
GEORGIA	131,235,067	151,975,678	110,326,599			393,537,344
HAWAII	27,769,366	13,785,221	41,753,506			83,308,093
IDAHO	25,409,184	29,286,689	21,250,024		281,613	76,227,510
ILLINOIS	321,490,473	145,128,416	375,071,021	84,200,590		925,890,500
INDIANA	133,429,274	91,027,087	144,268,402	31,538,816		400,263,579
IOWA	88,919,482	103,446,064	74,369,178		39,024	266,773,748
KANSAS	60,543,743	61,612,162	52,727,466	6,677,819	24,620	181,585,810
KENTUCKY	119,366,078	87,677,671	101,332,824			308,376,573
LOUISIANA	146,682,050	117,231,843	169,081,739		19,977	433,015,609
MAINE	38,310,773	5,082,942	31,631,228	39,760,365	147,619	114,932,927
MARYLAND	124,631,230	145,159,546	104,154,181			373,944,957
MASSACHUSETTS	198,483,338	22,853,112	223,428,876	151,235,999		596,001,325
MICHIGAN	266,937,865	155,459,927	329,785,203	48,891,318	87,832	801,162,145
MINNESOTA	124,450,206	132,688,249	100,936,211	15,347,576	722,432	374,144,674
MISSISSIPPI	107,730,187	129,712,527	72,631,500		139,963	310,214,177
MISSOURI	117,788,182	77,955,694	152,024,347	5,375,451		353,143,674
MONTANA	24,795,577	32,917,719	14,867,791		1,799,394	74,380,481
NEBRASKA	45,242,176	44,942,342	42,449,611	2,888,578	188,852	135,711,559
NEVADA	13,808,081	17,260,681	10,133,099		214,000	41,415,861
NEW HAMPSHIRE	20,065,455	5,241,933	19,023,527	15,994,890		60,325,805
NEW JERSEY	197,304,585	139,546,268	175,520,213	79,616,848		591,987,914
NEW MEXICO	40,936,304	32,313,628	40,412,093		5,262,231	118,924,256
NEW YORK	701,017,982	300,426,090	952,937,060	148,175,049	376,761	2,102,932,942
NORTH CAROLINA	161,145,301	173,513,583	149,191,324		351,242	484,201,450
NORTH DAKOTA	25,086,436	25,784,127	16,806,213	6,565,389	1,030,470	75,272,635
OHIO	250,822,997	159,058,849	293,615,356	48,927,549		752,424,751
OKLAHOMA	70,365,929	51,984,173	87,464,599		1,258,880	211,073,581
OREGON	62,368,422	47,356,878	77,147,921		203,642	187,076,863
PENNSYLVANIA	330,060,562	186,699,849	369,484,186	104,552,547	400	990,797,544
RHODE ISLAND	28,324,916		40,294,723	16,346,341		84,965,980
SOUTH CAROLINA	88,306,116	90,005,513	80,005,022			258,316,651
SOUTH DAKOTA	27,940,838	32,593,747	17,320,150	4,024,127	1,920,825	83,799,687
TENNESSEE	118,634,753	103,267,923	136,445,761			358,348,437
TEXAS	298,229,926	220,569,873	374,361,656		61,583	893,223,038
UTAH	37,112,350	36,921,263	36,672,985		572,734	111,279,332
VERMONT	17,661,991	434,430	12,186,527	22,765,017		53,047,965
VIRGINIA	124,558,263	92,153,679	157,419,760		5,649	374,137,351
WASHINGTON	90,873,182	81,461,633	99,635,101	3,401	773,299	272,846,616
WEST VIRGINIA	81,122,395	48,335,893	56,008,362			185,466,650
WISCONSIN	158,038,834	156,134,786	134,753,494	25,195,870	483,197	474,606,181
WYOMING	11,669,645	16,985,238	6,011,605		258,757	34,925,245
NATIONAL TOTALS	$ 6,410,917,358	$ 4,806,616,154	$ 6,[illegible]39,067,503	$ 932,487,685	$ 22,833,908	$ 18,871,922,608

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Our program is succeeding in its objective of attracting public interest and involvement back into the mainstream of local government decision-making. In the past two years, members of my staff have participated in conferences and workshops in nearly every state -- meetings that have been organized by public and private interest groups anxious to inform their communities about this new program and its new approach to local decision-making. In many communities, specially appointed advisory boards and committees are soliciting citizens' views on priorities for uses of revenue sharing dollars. Where citizen participation is encouraged vis-a-vis General Revenue Sharing, it also affects other aspects of state and local business.

Citizen Participation

Revenue Sharing law requires that the two reports which recipients must file with the Office of Revenue Sharing each year be published locally in newspapers of general circulation. In adopting this provision, Congress provided citizens with basic information about their state and local governments' plans for and actual uses of shared revenues. Since plans may be changed before the funds are committed, citizens have the opportunity to express their opinions before the money is spent.

The Act also requires that shared revenues be spent in accordance with the laws and procedures that apply to the expenditure of each state and local government's own funds.

Accordingly, if state or local law requires public hearings or other forms of public involvement in appropriating public funds, then the same procedures are required when General Revenue Sharing dollars are used. This provision of the law assures at least the same degree of public participation in priority-setting for uses of shared revenues as is the case for recipients' own-source revenues.

The publication requirement and the requirement that funds be spent by recipients in accordance with existing laws and procedures, when taken together, have helped to bring the revenue sharing program to the attention of the general public.

More needs to be done.

Whenever possible, we in the Office of Revenue Sharing have encouraged officials to involve their constituents in their decision-making regarding shared revenues, using procedures which are appropriate to the individual jurisdictions. We seek to encourage news reporters and columnists to take more interest in state and local budgeting and to report the impact our program has had on uses of public funds at all levels of government. We concur in the broadly-felt need to stimulate more effective public interest in government.

Uses of Funds

The Act permits State governments to spend their shared revenues for any purpose that is a legally permissable use of the State's own funds. Local governments may spend their money for any capital purpose (capital, as defined by local law) or

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for current expenses in any one or more of eight priority categories: public safety, environmental protection, public transportation, health, recreation, libraries, social services for the poor or aged, and financial administration.

Recipient governments are required to report to the Office of Revenue Sharing for each entitlement period on their plans for use of the money they expect to receive, and at the end of each fiscal year on their actual expenditures of shared revenues.

The reports made to the Office of Revenue Sharing are intentionally concise and simple, in keeping with the desire of Congress that our program not be a generator of additional red tape, confusion and expensive paperwork for any level of government. We require that use information be reported in the same functional categories that Congress established as priorities when the State and Local Fiscal Assistance Act was passed in 1972.

Any analysis of the ultimate impact of general revenue sharing on services at the State and local levels of American government is beyond the scope of our mission. It should be noted, however, that intensive efforts to measure the impacts of revenue sharing dollars on recipients' budgets are underway by a number of research organizations. The National Science Foundation, the Brookings Institution and others have undertaken research that will provide useful information about the ultimate impact of General Revenue Sharing funds on the provision of services by States and local governments.

Our reports to the Congress indicate those categories of activity in which shared revenues have been spent initially. We cannot measure whether or to what extent funds within State and local budgets have been freed up to be used elsewhere. The substitution effect is difficult and costly to assess and is the objective of research by others.

An analysis of the reported uses of General Revenue Sharing during 1973-74 indicates that more money was spent to support public safety services than for any other function. These expenditures, mainly by local governments, account for 23¢ of every General Revenue Sharing dollar spent. The second highest use of General Revenue Sharing funds by all State and local governments was to fund educational services and facilities. This use represented 21¢ of every General Revenue Sharing dollar, and dominated State government spending. The third highest expenditure of General Revenue Sharing funds was to provide a variety of public transportation services at both the State and local levels. These services accounted for 15¢ of the average General Revenue Sharing dollar spent in F.Y. 1974.

These three uses of General Revenue Sharing funds -- public safety, education, and public transportation -- accounted for almost 60% of all revenue sharing expenditures during 1973-74.

It is relevant to note that a public opinion survey sponsored by the Advisory Commission on Intergovernmental Relations last year found that respondent citizens' top priorities for uses of revenue sharing dollars were education, public safety and public transportation.

Other uses of shared revenues by States and local governments, in order of magnitude of total amounts spent, have been: multi-purpose and general government, health services, environmental protection, recreation and cultural programs, social services for the poor or aged, financial administration, libraries, housing and community development, and corrections, economic development and social development. By combining State and local government reported expenditures during the period July 1, 1973-June 30, 1974, we can obtain an overview of how the average General Revenue Sharing dollar was spent by these governments. Table 3 summarizes these reported uses of funds.

TABLE 3

REPORTED USE OF GENERAL REVENUE SHARING FUNDS
BY STATES AND ALL LOCAL GOVERNMENTS
1973-1974

Public Safety	23¢	Other Uses	4¢
Education	21¢	Financial Admin.	2¢
Public Transport.	15¢	Libraries	1¢
Multi-purpose & Gen. Government	10¢	Housing/Community Development	1¢
Health	7¢	Corrections	Less than 1¢
Environmental Protection	7¢	Economic Devel.	Less than 1¢
Recreation	5¢	Social Devel.	Less than 1¢
Social Services for Poor or Aged	4¢		

Although these statutory categories are useful to summarize expenditures of General Revenue Sharing funds, they are inadequate to describe the broad range of services encompassed. For example, expenditures for environmental protection, such as improved sanitary waste disposal facilities may represent a major community health benefit. Some governments may report an expenditure for mini-bus services as a social service for the aged or poor, others may report it as a public transportation expenditure, and in a third jurisdiction it may be categorized as a health program. In reality, most local and State government services ultimately contribute to a better quality of life for all citizens and thus could be considered as social services.

Surveys and inquiries made strongly suggest that the original limitation to five years as authorization for this program constitutes a substantial inhibition on local decisions about the use of the funds. Many officials have limited their expenditures to capital purposes so as to avoid a future dependence upon funds which conceivably could be terminated after 1976.

This factor has undoubtedly skewed expenditure patterns in a way not anticipated by the Congress when it authorized the program for a limited life ending in 1976.

Compliance

Revenue sharing law prohibits the use of shared revenues in any activity in which there is discrimination based on race, color, national origin or sex; if shared revenues are used to pay 25 percent or more of the cost of a capital construction project,

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Davis-Bacon Act wage requirements must be met; General Revenue Sharing funds may not be used as local match to secure Federal grant money; for local governments, funds may be used for ordinary and necessary capital expenditures authorized by law or for operating and maintenance expenditures for public safety, enviromental protection, public transportation, health, recreation, libraries, social services for the poor or aged, and financial administration.

To assure that the funds are used in compliance with these civil rights and other requirements of revenue sharing law, an innovative audit and compliance program has been developed which utilizes existing resources wherever possible. The Office of Revenue Sharing Compliance program includes these basic elements:

1. <u>Cooperative State Audit Program:</u> State audit agencies willing to do so will perform regular audits of the local governments within their States and of State agencies for revenue sharing purposes, using audit standards published by the Office of Revenue Sharing. All but eight states are now participants in this effort. We expect to achieve total coverage this year.

2. <u>Cooperative Private Audit Program:</u> Many accounting firms have agreed to include revenue sharing audits as part of their regular contractual audits of States and local governments. The quality of these and State-directed audits will be assured by periodic Office of Revenue Sharing review.

3. Staff Audits: performed by Office of Revenue Sharing staff and by other federal auditors to adequately cover those governments not subject to audit under a cooperative program and to assure quality control.

4. Cooperation with other Federal agencies: includes exchange of information and jointly-conducted investigations and problem-resolution. In October 1974, the Office of Revenue Sharing and the Equal Employment Opportunity Commission concluded an agreement providing for cooperation to assure nondiscrimination in public employment where revenue sharing funds are involved. Our agreement with the EEOC affords access to confidential employment data reported to EEOC by public employers. This information is used in our investigations and analyses of reports of discrimination in the use of shared revenues.

5. Complaint Investigation: In addition to our own efforts to seek out evidence of noncompliance, the Office of Revenue Sharing staff continues to investigate reports and complaints of noncompliance with the civil rights and other provisions of our law, whenever these are brought to us by others.

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Our procedure by which citizens may file complaints is intentionally simple, in order to encourage any person who believes that the law is not being observed to initiate a proper investigation. Any person may file a complaint by writing us a letter or card indicating the location and nature of the problem. The complainant is not required to identify himself, although most are willing to do so. Names of complainants are kept confidential to protect against possible local retribution.

Since the revenue sharing program began, we have been generally successful in our effort to investigate all complaints promptly as they are reported.

Where evidence of noncompliance with the provisions of the Act is found by the Office of Revenue Sharing, or bought to our attention through audit or by report, the Office of Revenue Sharing determines the facts, advises the affected government of its findings, and seeks prompt, voluntary action to correct. In cases involving local governments, the Governor of the state is advised and his assistance to achieve corrective action is sought. When these efforts are unavailing, the Office of Revenue Sharing proceeds with the administrative remedies provided in the State and Local Fiscal Assistance Act and regulations or we refer the case to the U.S. Department of Justice for appropriate action, depending on the circumstances of each case.

Where we find evidence of fraud, the attorney general of the appropriate state is requested to take necessary action. Should he fail or decline to act, the matter is then referred to the U.S. Justice Department for action.

As General Revenue Sharing has become better known and citizen interest increases, we have received more reports of noncompliance with revenue sharing law. Although we have a good record of prompt response to these, our very small audit and compliance staff must be expanded. We have asked the Congress to allow us for Fiscal Year 1976 the 21 added audit and compliance positions that were denied in Fiscal Year 1975.

Thus far, the Office of Revenue Sharing has handled 412 cases of which 172 have been resolved. A summary of our current compliance workload:

TABLE 4

COMPLIANCE CASES HANDLED BY
THE OFFICE OF REVENUE SHARING*
TO APRIL 4, 1975

Nature of Case	Resolved	Active	Special Status	Total
Civil Rights/Discrimin.	38	88	10	136
Financial/Accounting	47	22	4	73
Legal/Compliance with Applicable Provisions	36	59	0	95
Miscellaneous (publication, matching funds, etc.)	51	54	3	108
Totals	172	223	17	412

* These figures do not include Davis-Bacon cases. Department of Labor regional offices make compliance status determinations with respect to minimum wages required to be paid.

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Other allegations of misuse of revenue sharing funds brought to our attention have been investigated and found to lack jurisdiction or merit.

Enforcement of Civil Rights and Other Provisions of Revenue Sharing Law

When a compliance problem cannot be resolved through negotiation or mediation, the law provides that the Secretary of the Treasury may "...refer the matter to the Attorney General with a recommendation that an appropriate civil action be instituted; ...exercise the powers and functions provided by Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d); or ...take such other action as may be provided by law."

Thus far, the Treasury Department has initiated formal legal action against two recipient governments: the City of Chicago and the State of Michigan. Both causes involve discrimination in the use of General Revenue Sharing funds. As to the City of Chicago case, funds have been deferred pursuant to Court order.

The City of Chicago did not receive revenue sharing checks for the second and third quarters of the 5th Entitlement Period (January and April 1975 payments). The amount withheld to date totals $38.4 million. The United States District Court in the District of Columbia has ordered that the funds be withheld, based on a finding that hiring and promotion practices in the Chicago Police Department are discriminatory. General Revenue Sharing funds have been used to pay operating expenses of Chicago's Police Department. The case of U.S. et al vs. City of Chicago _et al_ went to trial in the U. S. District Court for the Northern District of Illinois on March 10, 1975 and is continuing at this time.

On February 19, 1975, the Office of Revenue Sharing requested the Department of Justice to initiate a civil action against the State of Michigan. Michigan has applied General Revenue Sharing funds to help fund the State Public School Employees' Retirement System. The Retirement System provides benefits to retired public school employees from Michigan school districts, including the segregated Ferndale, Michigan district. (Ferndale was ruled segregated in 1972. Appeal of the ruling was denied by the U. S. Supreme Court.)

The Justice Department is engaged in direct proceedings with the Ferndale School District to bring it into compliance with other Federal anti-discrimination laws. Accordingly, the Office of Revenue Sharing's action permits the Federal government to take a unified approach to resolving the problem.

Administration

The Treasury Department's administration of General Revenue Sharing is performed by a small and dedicated staff, all located in Washington, D. C. For Fiscal Year 1975, the Office of Revenue Sharing has been authorized a total of 85 positions. Our request for next year, including additions to our audit and compliance staff, would provide a total personnel complement of 116 positions.

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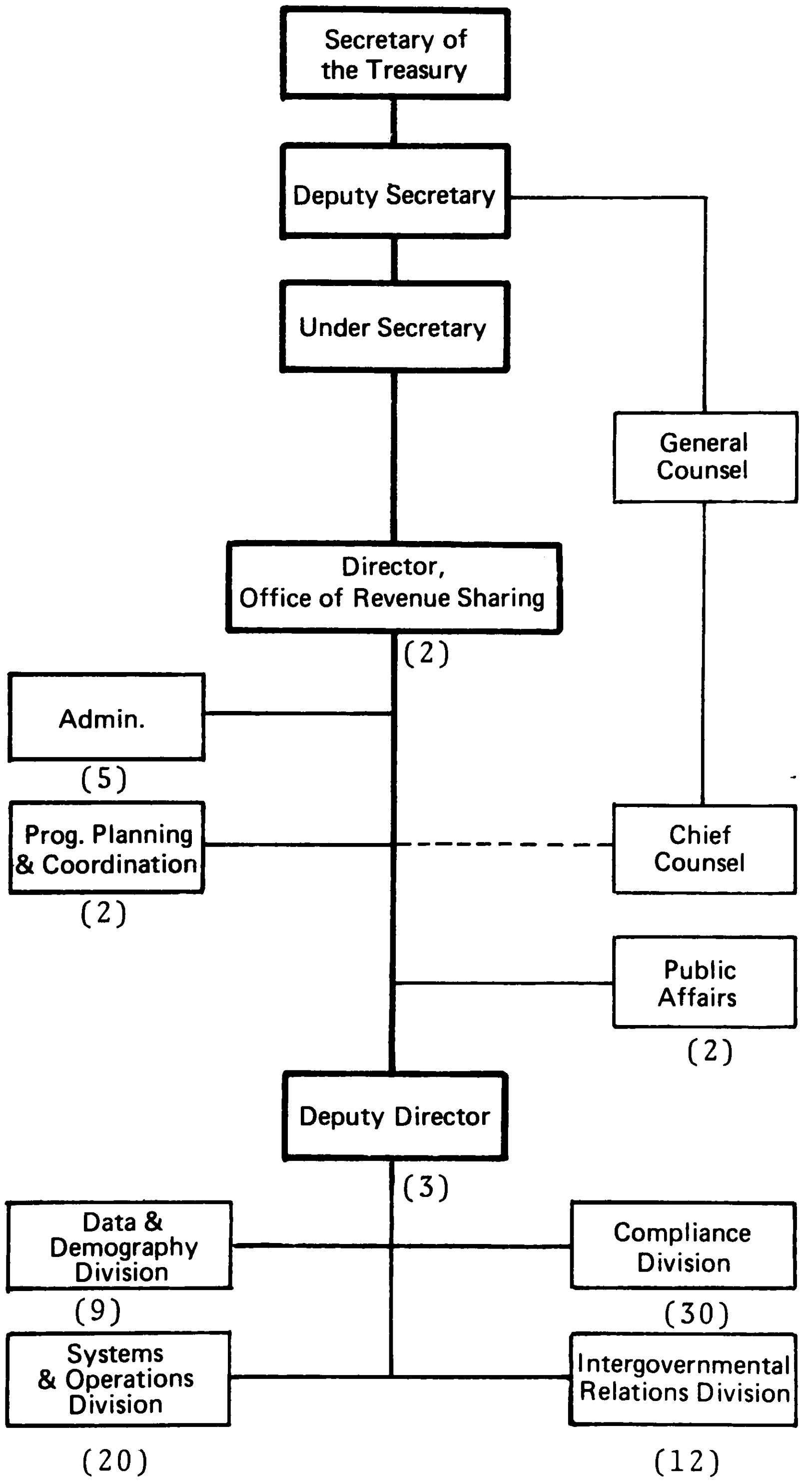
GENERAL REVENUE SHARING ORGANIZATION
with presently-authorized positions in parentheses



The Fiscal Year 1975 appropriation to operate the Office is $2,133,000. Administration of the program including data services by the Census Bureau and the Internal Revenue Service currently costs approximately 12/100ths of one percent of the funds being distributed.

Summary

The legislative history of the State and Local Fiscal Assistance Act of 1972 shows clearly that the Congress intended to establish a new form of Federal financial assistance to State and local governments. The Congress carefully distinguished General Revenue Sharing from all "grant" programs.

With General Revenue Sharing, States and local governments receive funds to which they are by law entitled -- an important distinction from grants for which governments may apply.

Payment amounts are determined not by administrative discretion but by objective formulas which divide a national appropriation among the States and local governments according to published data which measures their relative population, tax effort, per capita income and similar factors.

General Revenue Sharing is bringing about better and more responsive government at all levels. As a program, it responds to the unique needs of states and local governments. As a new system, it offers opportunity to serve the American public with dependability, yet flexibility, in such a way as to recognize and encourage the combination of national unity and local diversity that has made ours the strongest of nations for nearly two hundred years.

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The Bond Between Us

My husband once said that 10 minutes was enough for anyone to tell what he or she knows; after that, you tell what you don't know.

I agree, so I'll take only 10 minutes of your time to tell you what I know about United States Savings Bonds and why I'm sold on them -- and why I hope you are too.

I am so sold on the program that I accepted my second appointment, as National Director of the Savings Bonds Division, even though it came without a penny of salary. And I remain so convinced of its value that I have traveled over 78,000 miles, to 26 states during the past nine months, to talk about bonds.

These miles of travel stretch from the beaches of Hawaii to the blizzards of Minnesota to progressive Peoria. In this time, I have met hundreds of wonderful volunteers. And I have had the chance to see again that the real wealth of America is not the money made by our Department of the Treasury, but our living American land, our people, and the

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Remarks by the Honorable Francine I. Neff, TSIA, Peoria, Illinois on April 17, 1975.

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extra-ordinary ideas and attitudes that shaped our laws and institutions and propelled us so far in our 200 years as a Nation.

In these travels outside of Washington, D.C., I realize again that America is much more than rising unemployment and sinking Dow-Jones averages. It is 212 million people working, making homes, going to school, building and holding together a great Nation. And we are a great Nation. We set world standards in education, in per-capita income, and in pioneering new fields. We are a country where the medium income of our families has doubled in the past 25 years, even taking inflation into account; a country where 60 percent of American families own their own homes; where even our taxes of all kinds -- compared to our income -- are still the second lowest among the 13 top industrial nations of the world.

United States Savings Bonds are a part of this going and growing America. I suspect they do more to promote the habit of regular saving among Americans than all of the family lectures on thrift ever given. The Oklahoma farmer and the Ohio housewife may have little concept of a Treasury note or a mutual fund investment, but they do know about Savings Bonds. And they do save. In 1974, we had the largest bond sales since World War Two -- almost $6.9 billion.

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Savings Bonds are a trusted part of everyone's life -- of America's life -- and they <u>have</u> been ever since most of us were earning our first quarter.

Bonds belong in America. But now and then we need to look again at this old friend of ours and rediscover the "what" and "why" of them. Let's do that right now. Let's look at 3 main reasons why we can urge people to say "yes" to Savings Bonds.

First they are a sound personal investment. They are secure in a troubled world. The payroll savings plan is a painless way to receive six percent interest on your savings. And this can equal a higher rate of interest when you consider the tax advantages -- which most of us are doing with special vigor this tax-paying season.

By the way, I've discovered that some people <u>still</u> don't know about our 6 percent interest, and other people don't understand that you pay no state or local tax on bonds and that you can defer the federal tax until you cash them in.

Bonds are a great way to save, but they can also be an investment. Banker Tom Prideaux of the National Bank of Oregon notes that $75 invested in Savings Bonds monthly since December of 1968 is worth more than $75 invested monthly in stocks making up Moody's Industrial Index. That old reliable 6 percent comes through!

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Savings Bonds also help our government in its debt management, by providing an efficient way to meet a sizable percentage of borrowing needs at a relatively low cost to the nation.

When the Treasury is able to finance through non-marketable securities, the borrowing is kept out of the marketplace and thus does not directly compete with corporate and state and local borrowers. It's comforting to know that about 23 percent of the public debt in private hands is in the form of United States Savings Bonds.

Further, Savings Bonds have a long maturation period. Series E and H bonds remain outstanding, on the average, for six years, while other marketable instruments turn over, on the average, in three years or less. The cost of borrowing money is sizable, so you can see why holding bonds a long time is important to the government, and hence to us as taxpayers.

Finally, these bonds are a tangible expression of faith in America and her future. It is hard for most of us to say, "I love America." It is easier to buy bonds or to work for the program and to show our love that way. Perhaps that's why, in these difficult times, the sale of bonds is rising.

I grew up in the little town of Mountainair, New Mexico, where my parents provided me with a diet of pinto beans and patriotism. The pinto beans were sometimes scarce, but never the patriotism. During World War Two, the American Legion asked several of us young girls to sell bonds in front of the Mountainair Post Office on Saturday mornings. We young girls tried very hard to see which of us could sell the most bonds, and my proud father would often round up his cronies and direct them to my table.

I usually sold the most bonds and I thought at the time it was my scintilating smile. Years later I realized that my father was head of the local draft board and this just might have made a difference.

After the war ended and I graduated from college and became a young wife and mother, I cashed in the bonds my father had bought me so that my husband Ed and I could buy our first home. This was in the booming postwar economy years of the 1950's and 60's.

Now today, in my middlessence, I'm selling bonds again. And, from my Washington office as the United States Treasurer and National Director, I see more fully their debt reduction aspect.

Most of us have seen bonds from these 3 viewpoints of the patriotic, the personal benefits, and the boost that bonds give to the country's debt management.

From every standpoint, Savings Bonds make sense -- and dollars. They are good for the individual, good for the country, and good for the future.

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But selling bonds by the billions doesn't just happen. It takes a small handful of Treasury people and a very large handful of volunteers. Easily ninety-five percent of the people working for our program are volunteers like yourselves.

I know that we ask a lot of our Bond volunteers. We ask busy, important people to take time to become personally concerned and involved. The only reason we can do this is because we feel our product is so great.

Our national goal in 1975 is to sell at least 6.8 billion in bonds and to enroll 2.4 million new or increased savers. We are starting out very well, with sales of almost $1.9 billion in bonds for the first 3 months. That's the greatest bond sales for this period in 30 years.

As Savings Bonds volunteers, you have an excellent message. You have a ready market. You have some very good Savings Bonds people here in Illinois and you will have the help of a nationwide series of public service ads featuring our Bicentennial slogan "Take Stock in America -- 200 years at the same location."

But the Savings Bonds job can never be done in Washington or New York alone. It is a grass roots program, and the results depend on your personal involvement and the involvement of others like you across the country. Let's roll up our sleeves and roll up a record -- we can do it this year.

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1975 is the beginning of our third century as a Nation. It's a super time to join the program. Let's make the bicentennial year a "buy bonds" year as well, by reminding people <u>what</u> we are selling and <u>why</u> we are selling. Let's look up from our desks and out the windows at America -- at her green hills and brown prairies and industrial might -- her ideas and institutions and people -- and remember why it is that the word "America" is such a special word everywhere on earth. And then -- let's get up from those desks and go out and do the job.

Thank you.

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH 191 MARCH, 1975

(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	3749	5	.13
UNMATURED				
Series E 3/:				
1941	1941	1764	176	9.07
1942	8568	7770	798	9.31
1943	13777	12511	1266	9.19
1944	16095	14540	1556	9.67
1945	12680	11320	1360	10.73
1946	5796	5030	766	13.22
1947	5537	4680	857	15.48
1948	5747	4784	964	16.77
1949	5712	4679	1033	18.08
1950	5019	4060	960	19.13
1951	4341	3511	830	19.12
1952	4556	3659	898	19.71
1953	5226	4124	1102	21.09
1954	5344	4158	1186	22.19
1955	5574	4294	1280	22.96
1956	5384	4123	1261	23.42
1957	5083	3850	1233	24.26
1958	4979	3686	1293	25.97
1959	4679	3429	1249	26.69
1960	4711	3368	1343	28.51
1961	4816	3333	1483	30.79
1962	4697	3176	1521	32.38
1963	5296	3409	1887	35.63
1964	5161	3337	1825	35.36
1965	5050	3243	1805	35.74
1966	5479	3395	2084	38.04
1967	5434	3325	2109	38.81
1968	5123	3087	2036	39.74
1969	4820	2818	2003	41.56
1970	5066	2731	2335	46.09
1971	5844	2775	3069	52.52
1972	6453	2690	3762	58.30
1973	6385	2404	3981	62.35
1974	6402	1514	4888	76.35
1975	366	-	366	100.00
Unclassified	848	845	3	.35
Total Series E	207989	151422	56568	27.20
Series H (1952 thru May, 1959) 3/	5484	4171	1313	23.94
H (June, 1959 thru 1974)	10199	3704	6494	63.67
Total Series H	15683	7875	7807	49.77
Total Series E and H	223672	159296	64375	28.78
All Series Total matured	38278	38250	28	.07
All Series Total unmatured	223672	159296	64375	28.78
All Series Grand Total	261950	197546	64403	24.59

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. Nov. 1974) – Dept. of the Treasury – Bureau of the Public Debt

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

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FOR IMMEDIATE RELEASE

CONTACT: Stanley Sommerfield
964-2394
April 18, 1975

CAMBODIA ACCOUNTS BLOCKED UNDER TREASURY'S FOREIGN ASSETS CONTROL REGULATIONS

The Treasury Department announced today that under Foreign Assets Control Regulations it has blocked all financial and commercial transactions with Cambodia by persons subject to the jurisdiction of the United States unless first licensed by the Treasury's Office of Foreign Assets Control.

The Treasury action was approved by the National Security Council.

The Treasury said it had instructed domestic banks to block all Cambodian accounts immediately.

The Treasury said the value of Cambodia short term assets in the United States as of December, 1974, was $4 million. The value of other assets owned by Cambodians -- real estate, securities, etc -- is not known.

The action placed Cambodian assets under licensing control along with assets of other blocked countries which include North Vietnam, North Korea, and Cuba. Foreign subsidiaries of American firms may not trade with Cambodia without a license, the Treasury said.

Humanitarian relief sent by Americans to Cambodia requires a license, regardless of what country it is being shipped from, the Treasury said.

Policy with respect to this kind of relief has not been determined, the Treasury announced.

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

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FOR IMMEDIATE RELEASE

April 18, 1975

ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE
INDO-US CHAMBER OF COMMERCE
BOMBAY, INDIA, FRIDAY, APRIL 18, 1975

A visit to India is a rare experience for most Americans, and the opportunity to address a distinguished audience of Indian and American businessmen is rarer still. So as I come before you tonight, I am deeply grateful to you and to the Indian Government for the kind invitations that bring me to this podium.

It is also my pleasure to bring you the greetings of the President of the United States. Before I left Washington, President Ford asked that in my travels here I extend his warmest personal regards and convey to you his hope that during his Presidency we may strengthen the bonds of friendship between our two nations.

This is my first visit to India. During the six days that I shall be here--traveling to New Delhi, Agra, Bombay and Madras--I obviously can see only a small part of your vast and diverse country. Yet through first hand observation, I hope it will be possible for me to gain a better knowledge of the problems you face as a developing country.

My chief purpose in coming here is to find answers to a single question: How can our countries cooperate more closely so that each of us can benefit? The United States is very interested in finding ways that we can help you to help yourselves, but we are not unaware that in the process we will also be helping ourselves. The benefits of cooperation can and

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do run both ways. This approach, I believe, is entirely fitting for two great nations who respect each other and also respect themselves. It is our belief that in seeking mutual gains, both the United States and India have far more to gain from a pattern of closer friendship and cooperation than from a relationship characterized by suspicion and distrust.

Much has been said in the past about the differences between us--the issues that drive us apart and tend to plant the seeds of discord. Those items are so familiar that they bear no recitation tonight.

What I would like to address instead are some areas in which we share a common interest--the issues which should pull us together and give us a common bond. Too often that which united us has been obscured by that which divides. By recognizing more clearly the issues in which we share a common interest, we can find the best means of building a sound constructive relationship.

THE CHALLENGE OF EXPANDING TRADE

A central issue in which India and the United States share a common interest is in expanding trade between our two nations. I know this matter is of particular importance here in Bombay, the traditional gateway to India for foreign commerce.

From 1971 to 1973, average annual Indian exports to the United States were about $400 million, or about 15 percent of total Indian exports. During the same period, annual India imports from the United States averaged about $500 million, about 18 percent of India's total imports. Thus, to highlight the obvious, the United States is the most important trading partner for India, even when excluding the substantial shipments of grain that occurred in the mid 1960s and again in the 1974-75 period.

For the United States, however, India was not a major trading partner, even when compared with other developing countries. To provide some perspective, Taiwan, with a population of 15 million people and a GNP of just over $9 billion (one eighth the size of India's GNP), in 1973 exported more than $4 billion of which $1.7 billion went to the United States. In the same year Taiwan imported goods totalling $4 billion, including $950 million from the United States. Singapore, with $1.5 billion, exported $613 million of its products to the U.S. and imported $765 million worth from the U.S. in 1973 thus, total U.S. trade with Taiwan was three times the amount of our trade with India, while American trade with Singapore was substantially more than our trade with India.

Surely there is vast room for an increase in the trade between our two countries which would be mutually beneficial.

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For India, even a relatively small increase in its share of the U.S. market would be substantial in absolute terms. If for example, India's share of U.S. imports increased by as little as four-tenths of one percent, this would mean an increase in Indian exports of approximately $400 million. This sum would be more than the total debt relief India received last year from the Aid-To-India consortium, and it could be repeated and increased every year.

Given the need, the desirability and the potential for increasing trade between our countries, we must ask ourselves how that goal may be achieved. One part of the answer, I would suggest, is the same answer that I carried to the Soviet Union, and with all other nations, we should work to lower the many barriers which now clog our trading lanes.

Let me assure you that the United States will not seek to restrict your access to our markets. With perhaps the notable exception of our sugar policy, which for many years granted preferences to our own hemisphere, we have tried to avoid discrimination against or among developing countries. Indeed in the Trade Act of 1974, which President Ford signed early this year, the United States has moved toward preferential treatment for developing countries by enabling the President to provide those nations with duty free treatment for their eligible exports. The President has already identified India as a prospective beneficiary. While this trade measure will provide preferential access to U.S. markets for developing countries, I should point out that it will not provide an advantage for any single less developed country in competition with other less developed countries. In short our trade preferences will provide an opportunity for all developing countries to expand their exports to the United States but they will not automatically guarantee a share to any particular exporting country.

To look at the other side of our trade for a moment, it is no secret to anyone in this audience that American businessmen trying to sell their products here in India often report a sense of frustration and discouragement. In seeking ways to bolster the ties between United States and India, the sources of those frustrations must inevitably be one of the subjects that we address.

One of the forums in which we are hopeful that progress can be made on economic cooperation is the Indo-U.S. Joint Commission. That Commission was established last October during Secretary Kissinger's trip to New Delhi. As you know, one of the three subcommissions set up under that umbrella is the Economic and Commercial Subcommission which held its first meeting in Washington in January.

With the help of the Federation of the Indian Chamber of Commerce and industry as well as the United States Chamber of Commerce a Joint Business Council is now being formed in order to improve ties between the two business communities. The first meeting of the council is tentatively scheduled for late this year. Other activities taking place under the leadership of the Indo-U.S. Joint Commission are the formation of a joint working group on Agricultural inputs, negotiations on a tax treaty, and the promotion of trade missions. We are looking forward to the visit to Washington of an Indian export promotion council trade mission to explore possibilities of selling Indian engineering products in American markets. All of these are positive steps forward.

At the January meeting of the Economic and Commercial Subcommission, we were advised that the Government of India considers foreign investment an important mechanism for acquiring needed industrial technology and for expanding high technology exports. We agree. Yet both of us must face the fact that over the years American firms have not eagerly sought to invest their funds in India. U.S. investments in developing countries around the world now total some $25 billion. Of that amount, U.S. investments in India have a book value of only $325 million--less than 2 percent of the total.

With the context of the Joint Commission we are eager to work with you in finding ways to improve the investment picture. The United States Government can offer "good offices" for specific proposals and can help to establish a liaison with private investors in the United States. I must emphasize, however, that my Government does not play a major direct role in the transfer of industrial technology to India.

Technology is the property of private U.S. firms and as such it must be enticed to come to India through your efforts to create a favorable climate for investment. Our Government is prepared to discuss with you our own ideas about the way that climate could be improved, but the basic decisions on what should be done remain, of course, in your hands.

To summarize, the United States Government would like to work with you in a joint, cooperative effort to remove as many trade impediments as possible. We believe that the expansion of trade which should result would provide economic benefits to each of us and at the same time would also help to deepen and strengthen our friendship.

MEETING THE ENERGY CHALLENGE

A second interest which we share together is to overcome the challenge posed by quadrupling of international oil prices in the past year and a half. Last year the United States paid out $25 billion for foreign oil--more than eight times what we

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were paying in 1970. Here in India, the costs of foreign oil last year were double their level of a year earlier, and you were forced to place more severe importation limits on a product that is vitally needed for your industries. While our oil bills are different in size, it is clear that neither of us can long tolerate a heavy dependence upon foreign oil that is so highly priced.

In both of our countries the high cost of oil has also had a major impact upon the cost of fertilizer. In the United States the higher cost of fertilizer has driven up farm costs and, in turn, consumers have been forced to pay a higher price for food. In India, we recognize that the availability and cost of fertilizer is virtually a matter of life and death because the need for increased food production is so vital to feeding the Indian population. We have actively encouraged the World Bank to assist the expansion of the Indian fertilizer industry, and several major loans for that purpose have been made during the past year.

The adjustment to higher energy prices has been eased by borrowing. But we recognize that such borrowing is not a complete answer. It will help you cope with problems today, but the problems themselves will still be there tomorrow. In the United States, we believe that the ultimate solution lies in a two-pronged effort by consumer nations: an ambitious program of energy conservation and a major effort to become more self sufficient in energy.

I might point out that the countries that have been most successful at conserving energy are those that have allowed the free market to do its job. Germany, for example, by relying upon the price mechanism, cut its oil consumption by about 10 percent last year. Meanwhile, the United States, depending largely on non-price approaches, reduced consumption by only 3 percent. The Administration now has legislation pending in our Congress which would use the price mechanism as a means of encouraging further conservation. Of course, no one relishes the prospect of higher prices for oil or anything else, but attempts to avoid or suppress the economic realities reflected in the market place merely postpone the inevitable. Even worse, such attempts usually make the adjustment process more difficult.

The present oil cartel, like all other cartels in the past, is subject to the laws of supply and demand. When demand falls, the cartel has no choice but to lower its price or to reduce its production. As worldwide consumption has been reduced in recent months through conservation and through the effects of worldwide recession, we are already seeing this process at work. OPEC has now shut in a third of its capacity -- over 12 million barrels a day -- in order to hold the line of prices. Within a matter of months, OPEC's shut-in capacity may rise to 15-16 million barrels a day. Furthermore, during the last three years, significant discoveries of oil have been made in some

25-30 areas of the world outside of OPEC -- uncovering reserves estimated at roughly 35 billion barrels. These new fields could produce some 8 million additional barrels a day by the late 1970s, and this does not include new production coming from the U.S., the Soviet Union, and the People's Republic of China.

India is one of the countries which has greatly intensified its oil exploration and has already found considerable additional resources, although there is still much potential for further exploration. Your recent progress in locating oil on the Bombay High is a good example of successful Indian cooperation with the American private sector in developing your energy potential.

As the pressures of conservation and development have built up, some of the members of the cartel have begun shaving prices, and we have seen the first cracks in what many erroneously claimed was an impregnable price wall. I have said many times before, and I believe even more strongly now that it is no longer a question of whether oil prices will come down but when they will come down.

Nonetheless, neither we nor other consumer nations such as India can afford to sit idly by, waiting for a change in price. We must all take affirmative action both to conserve and to develop alternative energy sources.

One alternative source that both of us have in abundance is coal. I am told that Indian coal reserves are close to 90 billion tons, which is about 1,000 times current annual production. Identifiable coal reserves in the United States are 1 trillion, 500 billion tons, compared to an output last year of 600 million tons.

The dramatic increase in the price of oil makes it vital that both of our countries step up the development and use of this alternative fuel. The price incentives provided us by today's market certainly encourage the rapid expansion of coal production, and in the United States that process is already underway. We believe there is also potential for cooperative efforts by our two countries in developing this resource.

DEVELOPMENT ASSISTANCE

As I have noted, the United States believes that our own country benefits when nations such as India are able to improve the living conditions of their people. Such development expands potential markets for us and generally contributes to a higher standard of living around the world.

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Moreover, even though few of us have ever had the privilege of visiting India, Americans are not blind to the economic problems which affect many of the people in this country. Nothing would please us more than to see your nation overcome these problems and to believe that we have played a helpful role in the process. Americans believe now, as they have in the past, that all of the people on this planet should have access to adequate diets and at least minimal health and educational facilities.

Since the end of World War II, official development assistance to India from the United States has totaled $9 billion in concessional loans and grants, quite apart from our assistance which was channelled through international agencies. India has been the largest single recipient of bilateral aid from the United States--and far more than half of all bilateral foreign aid received by India since independence has originated in the United States.

I have the impression, however, that some people feel assistance by the United States is a matter of the distant past. In fact, during 1975 the United States will again be the largest source of bilateral assistance for India, contributing over a quarter of a billion dollars.

Misunderstandings about the level of U.S. aid may stem in part from the fact that in recent years the bulk of our assistance to India has been channeled through international institutions, especially the World Bank and the International Monetary Fund. India has received $3 billion in credits from the International Development Association (IDA)--a part of the World Bank family. This over 40 percent of IDA's lending, and, I might add, the United States has provided over one-third of all of IDA's funds. In January of this year, during the meeting of the development committee, I delivered to the World Bank our undertaking to provide an additional $1.5 billion to IDA.

As part of the international effort to ease the strain of higher oil prices for developing countries, India last year was also a major beneficiary of the IMF oil facility. Under that program, the IMF borrows largely on the basis of guarantees provided to it by the United States and other industrialized countries. In our view, the emergency fund should be phased out this year. We also believe, however, that the IMF should be equipped to provide even more resources in future years if they are needed by member nations. We have reached agreement in principle on a one-third increase in IMF quotas, and negotiations are well advanced toward making IMF resources much more fully useable.

In addition, the United States has proposed a special trust fund to be administered by the IMF to assist those developing nations which may continue to face reduced growth rates because of increases in the prices of energy and other products. Funds for this purpose would be raised in part by sale of some of the gold now sitting idle in the IMF. India might well be the largest beneficiary of highly concessional loans from this trust fund, if there is international agreement to establish it.

Still another vehicle for easing the adjustment to higher oil prices should be the development committee recently set up under the aegis of the International Monetary Fund and the World Bank. That committee was designed to address all of the problems of the developing nations, but in its first meeting last October, it decided to give highest priority to their problems relating to energy. That development committee will meet again this June to consider the nature and dimensions of such economic strains. By coming here to India, I hope that I will be better prepared to fulfill my responsibilities as head of the U.S. Delegation to that June meeting.

I might note that within the development committee, Finance Minister Subramaniam, with whom I have been meeting in New Delhi this week, represents India as well as several of your neighbors. My meetings with the Minister have been highly fruitful, and I look forward to working closely with him on energy as well as other critical matters.

In short, I hope that it is clear to all of you in this audience tonight that the United States is continuing to be an active partner in providing economic assistance to developing countries.

But let us not mislead each other. In the final analysis, foreign assistance can make only a marginal contribution to economic development. The ultimate success will depend upon the energy and initiative of each nation's own people and the wisdom shown by governments in freeing those energies for full realization of their creative potential. In our view, there can be no doubt that a free and growing international market economy offers a powerful vehicle by which the energies of the people in all nations can be mobilized.

MAINTAIN PEACE AND FREEDOM

A fourth cause which binds our nations together--and the last one that I shall address tonight--is our mutual and lasting interest in preserving peace and freedom.

Both of our countries were born in a struggle for independence. Both of us have known the yoke of foreign rule. And both of us are committed to the proposition that only by maintaining our independence and freedom can we fulfill our dreams for the future.

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In the last five years, we believe that considerable progress has been made toward building a structure of peace in which that freedom can survive. The two most powerful nations in the world, the United States and Soviet Union, are both firmly committed to a policy of detente. Before coming to India, I visited the Soviet Union where I met with General Secretary Brezhnev. He made it very clear to me that his nation remains dedicated to detente, and I assured him that our nation is equally committed.

Improvements in American and Soviet relations is but one example of progress toward a more peaceful world in recent years. In Europe, a treaty has been signed which protects the future of Berlin, once the powderkeg of the world. In the Middle East, the past year and one half witnessed the first tangible progress toward a just and lasting peace in over a quarter of a century. Despite recent setbacks, President Ford has reaffirmed America's determination to continue to play an active role in the search for peace in that troubled region. And in Asia, the United States and People's Republic of China have dismantled the wall that divided them for a quarter of a century.

Some observers have concluded that because of events in South East Asia in recent weeks, the United States is in the process of withdrawing from Asia and turning our backs on our allies. There are, indeed, those in the United States today who would have us return to a policy of neo-isolationism. But let me tell you tonight that they are a distinct minority. The vast majority of Americans want America to remain involved in world affairs because they believe--as I hope you believe--that active American participation in world affairs is our best guarantee for peace.

Eight days ago, President Ford addressed the American Congress in a way that expresses our policy well:

"Let no potential adversary believe that our difficulties or our debates mean a slackening of our will," he said.

"We will stand by our friends."

"We will honor our commitments."

"We will uphold our country's principles."

I trust that message was clearly received in every capital in the world because it is the cornerstone of American foreign policy.

Ladies and gentlemen: let me close with this thought. I know that from your perspective you have heard a great deal of rhetoric in years past about relations between India and the United States. You are more interested now in action than in words. We in America feel much the same way. We want action, and we would like concrete progress.

Yet in recent years, too much has been said to poison the friendship between us. We have allowed our differences to overshadow our common interests. Let us have action--let us move ahead, as swiftly as we can--but at the same time, as I have stressed tonight, let us also remember that we share many of the same goals--expanding trade, overcoming the challenge of higher energy prices, ensuring adequate levels of economic assistance, and preserving peace and freedom. In the days and years ahead, let us never lose sight of these mutual interests but instead make them the foundation of a common effort to give our children a world that is secure from hunger and war.

Thank you.

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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
Tuesday, April 22, 1975
Contact: Priscilla R. Crane
(202) 634-5248

The distribution of $6.4 billion in General Revenue Sharing money to be paid each of nearly 39,000 states and local governments for Federal fiscal year 1976 (Entitlement Period 6) was announced by the U.S. Treasury Department's Office of Revenue Sharing today. The money will be distributed to all general governments in the United States in four quarterly payments, in October 1975 and January, April and July 1976.

The 1976 allocations of shared revenues reflect new population and per capita income estimates. The U.S. Bureau of the Census and the Bureau of Indian Affairs have provided estimated 1973 population and 1972 per capita income figures for use in calculating fiscal year 1976 amounts. For all previous entitlement periods, the most current data available were based on the 1970 decennial census.

Allocations of shared revenues are made by formulas contained in the State and Local Fiscal Assistance Act of 1972, using estimates of population, per capita income and tax effort.

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The individual fiscal year 1976 allocations also reflect adjustments to fiscal year 1975 amounts, based on recently-made final calculations using verified and improved data developed during the current year.

The amounts that states and local governments may expect to receive have been printed on Planned Use Report forms mailed today to each State, county, city, town, township, Indian tribe and Alaskan native village in the United States.

On the Planned Use Report form, due to be returned to the Office of Revenue Sharing by June 24, 1975, the Chief Executive Officer of each recipient government must report that government's plans for uses of its 1976 revenue sharing money. The Planned Use Reports must be published locally in newspapers of general circulation. In addition, the news media in each area -- including bi-lingual news media -- must be informed about the report. A copy of the report and supporting documentation must be made available for public inspection at a location announced on the published report form.

The publication requirement in the revenue sharing law was intended to provide citizens with information about the General Revenue Sharing program as it affects their communities. Citizens may suggest changes in proposed uses of the money before it has been spent.

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Governments that fail to file Planned Use Reports with the Office of Revenue Sharing will not receive their quarterly checks on schedule. The funds will be held by the Office of Revenue Sharing until the forms have been properly published and filed.

Title I of the State and Local Fiscal Assistance Act of 1972 authorized and appropriated $30.2 billion to be distributed to all units of general government in the United States over a five year period, from January 1972 through December 1976. Thus far, the Office of Revenue Sharing has made payments totaling $18.9 billion.

President Ford has announced his intention to seek renewal of General Revenue Sharing past its present deadline of December 1976. In his address of April 4, 1975 to the San Francisco Bay Area Council, the President said, "Our economy no longer can afford the waste, duplication, and misunderstandings that occur when a Federal Government tries to do for the local people what they can best achieve for themselves... I happen to deeply believe in the concept of decentralization of government power in providing wider discretionary accountability to locally elected officials and their constituencies. An example, of course, is ... general revenue sharing."

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The President mentioned some specific uses of shared revenues by Bay Area governments. He reported that some San Francisco General Revenue Sharing money had been used to provide kitchens to feed school children. The city of Santa Rosa has used shared revenues to buy gasoline to transport handicapped citizens to their doctors. San Mateo County provides a health care demonstration project, a rehabilitation program for drug users, and other health care services.

The President's request to Congress that General Revenue Sharing be renewed is expected to be made shortly.

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Attachment

ENTITLEMENT PERIOD 6

R E V E N U E   S H A R I N G   S U M M A R Y

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NAME	REVENUE SHARED EP1 - EP5	REVENUE TO BE SHARED EP6	TOTAL
ALABAMA	345,789,244	101,863,455	447,652,699
ALASKA	26,365,919	9,138,410	35,504,329
ARIZONA	203,983,457	65,250,599	269,234,056
ARKANSAS	211,734,166	65,918,483	277,652,649
CALIFORNIA	2,174,475,481	659,210,794	2,833,686,275
COLORADO	214,271,358	69,153,951	283,425,309
CONNECTICUT	259,044,280	85,529,127	344,573,407
DELAWARE	61,247,378	19,140,674	80,388,052
DIST OF COLUMBIA	91,015,007	26,648,968	117,663,975
FLORIDA	597,289,935	200,669,336	797,959,271
GEORGIA	426,347,672	133,397,968	559,745,640
HAWAII	89,984,345	27,829,635	117,813,980
IDAHO	82,163,518	25,289,112	107,452,630
ILLINOIS	1,042,349,983	321,729,268	1,364,079,251
INDIANA	432,198,469	128,859,287	561,057,756
IOWA	288,306,564	82,851,506	371,158,070
KANSAS	195,788,479	58,220,986	254,009,465
KENTUCKY	332,855,237	102,898,598	435,753,835
LOUISIANA	467,807,273	136,853,100	604,660,373
MAINE	124,387,044	40,715,263	165,102,307
MARYLAND	403,979,969	126,176,694	530,156,663
MASSACHUETTS	644,779,544	206,460,814	851,240,358
MICHIGAN	866,490,654	267,102,625	1,133,593,279
MINNESOTA	404,836,028	132,849,806	537,685,834
MISSISSIPPI	334,504,518	94,872,326	429,376,844
MISSOURI	382,522,377	122,259,879	504,782,256
MONTANA	80,702,803	23,713,490	104,416,293
NEBRASKA	146,140,003	42,159,688	188,299,691
NEVADA	44,786,933	14,705,591	59,492,524
NEW HAMPSHIRE	65,362,840	20,001,162	85,364,002
NEW JERSEY	640,537,213	198,475,091	839,012,304
NEW MEXICO	128,594,442	39,611,289	168,205,731
NEW YORK	2,275,630,683	719,208,213	2,994,838,896
NORTH CAROLINA	523,366,343	155,257,732	678,624,075
NORTH DAKOTA	80,520,009	19,264,724	99,784,733
OHIO	814,153,791	259,449,222	1,073,603,013
OKLAHOMA	228,537,093	70,392,755	298,929,848
OREGON	202,571,534	66,671,611	269,243,145
PENNSYLVANIA	1,072,510,927	336,766,093	1,409,277,020
RHODE ISLAND	91,778,114	27,423,531	119,201,645
SOUTH CAROLINA	279,705,180	89,328,908	369,034,088
SOUTH DAKOTA	90,240,403	25,280,605	115,521,008
TENNESSEE	388,326,616	117,421,041	505,747,657
TEXAS	966,735,390	309,036,475	1,275,771,865
UTAH	120,340,751	37,252,451	157,593,202
VERMONT	57,406,739	19,664,412	77,071,151
VIRGINIA	404,620,487	128,277,580	532,898,067
WASHINGTON	294,339,834	92,606,685	386,946,519
WEST VIRGINIA	200,850,356	57,280,277	258,130,633
WISCONSIN	513,358,169	160,549,506	673,907,675
WYOMING	37,676,954	10,025,746	47,702,700
NATIONAL TOTALS	20,453,311,506	6,350,714,542	26,804,026,048

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

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Contact: Herbert C. Shelley
964-8256

FOR IMMEDIATE RELEASE April 21, 1975

TREASURY ANNOUNCES ACTION ON COUNTERVAILING DUTY INVESTIGATION

Assistant Secretary of the Treasury, David R. Macdonald, announced today that an amendment to a prior "Notice of Receipt of Countervailing Duty Petitions" is being issued to end the investigation of leather products from Argentina. Notice of this action will be published in the Federal Register of April 22, 1975.

On January 15, 1975, the Treasury Department issued a "Notice of Receipt of Countervailing Duty Petitions" in the Federal Register listing 30 commodities from various countries including leather products from Argentina. Mr. Macdonald explained in a January 9 press release that the Trade Act of 1974 established a new procedure that required Treasury to publish countervailing duty petitions without delay and as received. The Act further provided that petitions that had been received before enactment of the Trade Act were to be handled as if they were received on the day after enactment.

Subsequent to the publication of the leather products petition on January 15, the petitioner informed Treasury that for purposes of the petition, leather products was meant to be defined only as leather footwear. Non-rubber footwear from Argentina is included in an ongoing investigation, in which a "Notice of Preliminary Countervailing Duty Determination" was published in the Federal Register of February 18, 1975. Accordingly, the leather products investigation will be incorporated into the investigation of non-rubber footwear from Argentina.

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

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FOR IMMEDIATE RELEASE April 21, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.7 billion of 13-week Treasury bills and for $2.7 billion of 26-week Treasury bills, both series to be issued on April 24, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing July 24, 1975			26-week bills maturing October 23, 1975		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.597	5.550%	5.72%	96.977	5.980%	6.27%
Low	98.560	5.697%	5.88%	96.906	6.120%	6.42%
Average	98.571	5.653%	5.83%	96.933	6.067%	6.36%

Tenders at the low price for the 13-week bills were allotted 60%.
Tenders at the low price for the 26-week bills were allotted 37%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 26,465,000	$ 26,465,000	$ 7,015,000	$ 7,015,000
New York	3,352,150,000	2,093,350,000	3,297,565,000	2,109,665,000
Philadelphia	28,880,000	28,880,000	6,565,000	6,565,000
Cleveland	60,665,000	55,665,000	72,610,000	62,610,000
Richmond	41,700,000	40,155,000	33,155,000	27,155,000
Atlanta	34,665,000	33,665,000	47,410,000	40,410,000
Chicago	172,105,000	168,605,000	286,135,000	266,485,000
St. Louis	51,990,000	42,190,000	30,335,000	23,705,000
Minneapolis	24,965,000	24,965,000	21,060,000	15,800,000
Kansas City	42,895,000	37,895,000	19,540,000	15,970,000
Dallas	32,220,000	31,220,000	25,070,000	25,070,000
San Francisco	223,260,000	117,260,000	219,575,000	99,575,000
TOTALS	$4,091,960,000	$2,700,315,000 a/	$4,066,035,000	$2,700,025,000 b/

a/ Includes $400,895,000 noncompetitive tenders from the public.
b/ Includes $150,420,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE April 22, 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 $5,400,000,000 , or thereabouts, to be issued May 1, 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 January 30, 1975, and to mature July 31, 1975 (CUSIP No. 912793 XG6), originally issued in the amount of $2,301,365,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,700,000,000, or thereabouts, to be dated May 1, 1975, and to mature October 30, 1975 (CUSIP No. 912793 XV3).

The bills will be issued for cash and in exchange for Treasury bills maturing May 1, 1975, outstanding in the amount of $4,597,975,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,643,165,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Monday, April 28, 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 May 1, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 1, 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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Hello, I'm delighted to be here. And I'll try to follow the advice of my husband Ed, who tells me that a speech should have a good beginning and a good ending, and what's good about them is that they're very close together.

I am here to ask for your support on behalf of the United States Savings Bonds Program. I am here to give you a few reasons why I believe in the program, and what we in the Treasury Department hope for in the way of accomplishments this Bicentennial year of 1975.

Savings Bonds have been part of America's life for many years. They belong -- in cities, rural areas and mid-town Manhatten. And I, like most of you, have seen them from three different viewpoints.

As a young teenager, I was involved with the War Bond drives of World War Two. On Saturday afternoons, I and my other young friends would sell bonds from the steps of the post office of my hometown of Mountainair, New Mexico. It was the patriotic thing to do. It still

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Remarks by the Honorable Francine I. Neff, to a TSIA Luncheon in Burlington, Vermont on April 22, 1975.

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is, in fact, during our current war on inflation.

Later on, as a young wife and mother during the 1950's, my husband and I cashed in our bonds to make the down payment on our first home. Then, we bought more bonds because it was a convenient, secure way for someone like myself -- the last of the big spenders -- to save for a rainy day. My yearnings often exceeded my husband's earnings, and it was comforting to know that the money supply in one small corner of our budget was actually increasing.

Today, the interest rate of 6 percent is much higher than it was 20 years ago. And even that 6 percent, attractive though it is, doesn't tell the whole story, because tax advantages can often raise that to the equivalent of an 8 or 9 percent return. And since April 15th was just a week ago, I think we're all pretty conscious of taxes right now.

Today, also, as the United States Treasurer and the National Director of the Savings Bonds Division, I continue to appreciate the patriotic and personal benefits of bonds. But I have a better understanding of their third role -- which is the part they play in our nation's debt structure.

Debt is a four-letter word to you Vermonters and we New Mexicans. But let's take a closer look at our Federal debt.

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By the end of February, the public debt outstanding for the nation had risen to almost $500 billion -- actually $499.8 billion. Some $220.8 billion of this is held by the Federal Reserve and various government trust accounts, and these do not pose marketing or refunding problems.

Of the remaining $279 billion of the public debt in private hands, about 23 percent -- or 64.8 billion -- is in the form of United States Savings Bonds.

This 23 cents of every dollar in the publicly-held portion of the Federal debt represents far and away the most stable part of the debt. Specifically, E and H bonds remain outstanding for more than 6 years, on the average, as compared to less than 3 years, on the average, for other marketable instruments.

Let's go over this again. Ten years ago, the average maturity of the privately held marketable debt not in Savings Bonds was 5 years and 9 months. But this has declined by almost 50%. Today it averages only 3 years. This is unsatisfactory for two reasons.

First, as the holding time decreases, the debt becomes more liquid or "spendable". This can be very inflationary.

Second, the job and the cost of refinancing a rapidly maturing debt is difficult and expensive. Even after eliminating Treasury bills, which come due as frequently as every 90 days, it is still true that nearly 1 of every 5 dollars in marketable securities held by the general public reaches maturity and needs refunding every 365 days.

So I repeat -- on the basis of past experience, Savings Bonds sold today, on the average, will not be redeemed for 6 years -- or more than twice as long as dollars obtained through marketable issues. This is true no matter what you hear about "X" number of bonds being cashed in after the minimum waiting period. By and large, our buyers hold onto their bonds.

In addition, they are buying more bonds. In 1974, we had the largest dollar sales since 1945. It looks like this year may be even better, despite the general economy. Cash sales of E and H bonds for the first quarter of 1975 totaled 1 billion 890 million dollars, the highest first-quarter figures in 30 years. These figures may go lower later this year, as people reach that "rainy day" they've been saving for.

Vermont certainly did its share in sales. Your 1974 sales were more than 17 percent above 1973 figures. And the upward trend continues. February 1975 sales for your state were 10 percent ahead of the same period in 1974.

That well-known Vermont thriftiness is at work, along with some terrific volunteer leadership. I understand that you've been extremely fortunate to have a father and son succession as state chairmen. Misters Levi Smith, Senior and Junior, between them have been state chairmen since the inception <u>of</u> the job. That's <u>real</u> thriftiness!

Vermonters were always leaders. Being something of a history buff, I remember that Vermont was the first state to prohibit slavery back some 198 years ago. And I recall that one of the slave-holding Southern states was so unhappy at this independent approach that they adopted a resolution asking the President to hire enough Irishmen to dig a deep ditch around Vermont so that it could be floated out into the Atlantic Ocean and set adrift!

I'm glad Mr. President said No. America would be much poorer without your state and its green mountains and good people.

We are <u>all</u> part of a great country. And it <u>is</u> a great country. In the last 9 months, as United States Treasurer, I've traveled to 27 states for the Savings Bonds program. And as I fly over our Eastern cities, our Midwestern prairies and our Western mountains and deserts, I look out the window and I am constantly reminded of what we Americans have and what we have built in our almost 200 years as a Nation.

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We have our wonderful, physical land; our people, who came from all corners of the world to become Americans; and our special ideas and attitudes that make us the nation that we are.

We have our free enterprise economic system, which has doubled the medium income of American families in the past 25 years, even taking inflation into account.

We have a country in which 60 percent of all families own their own homes; where the number of Americans going to college has doubled in the past 15 years; and where even our income tax burden is the second lowest among the top 13 industrial nations of the world.

No other country has our manpower, our brainpower, our technology. And, despite all cynicism, the word "America" is recognized all over the world as a very special word standing for a country unlike any other. I am 100 percent with my boss, Treasury Secretary William Simon, when he says that "those who take a perverse delight in proclaiming the end of the American dream are dead wrong."

America is a dream, and a reality, and a home for the hopes and lives of 212 million of us. And United States Savings Bonds are a grassroots part of that America.

You know as well as I do the benefits of Savings

Bonds. Their personal benefits as a savings program ... their <u>boost</u> to America's future ... and their importance to America's present. Bonds are good for the individual, good for the country, and good for our 3rd century of existence.

Also, you know as well as I that fully 95 percent of people working in the bond program are volunteers like yourselves. We ask a lot of you. We ask busy, important people to become <u>personally</u> concerned and involved. The only reason we can do this is because our product is so great.

So, <u>you</u> are what makes our program go. There's no Big Brother -- no Big Daddy -- in Washington, to do the job. We have less than 460 Treasury people, scattered throughout our 50 states, to coordinate the work of volunteers. Savings Bonds are the government -- <u>non</u>-government program. And we feel that's the way to be both effective and economical.

So, as <u>you</u> help the program go and grow -- it does or it doesn't. It's that direct. We need you. The country needs you. And the country and the people need our program.

In America's present economic climate, this may be the most important year for Savings Bonds since the 1930's. We <u>are</u> confronted with enormous economic problems. But we also have tremendous opportunities. Let's roll up our sleeves, and roll up a winner, by making this Bicentennial year a "buy bonds" year as well.

Thank you.

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

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FOR IMMEDIATE RELEASE
Tuesday, April 22, 1975
Contact: Priscilla Crane (202) 634-5248

Five publications of significance to the General Revenue Sharing program were issued this week by the U. S. Treasury Department's Office of Revenue Sharing. They are the following:

1. General Revenue Sharing FINAL DATA ELEMENTS Entitlement Period 5, a complete list of the final population, per capita income, adjusted tax and intergovernmental transfer data used to allocate General Revenue Sharing money to each of nearly 39,000 states and local governments for Entitlement Period 5, which is equivalent to Federal fiscal year 1975.

2. General Revenue Sharing FINAL INTERSTATE DATA & ALLOCATIONS Entitlement Period 5, contains detailed data definitions and the final data elements used for interstate allocations of shared revenues for Entitlement Period 5, and includes computations for both the 3 factor formula and 5 factor formula used in allocating the funds.

3. <u>General Revenue Sharing INITIAL DATA ELEMENTS Entitlement Period 6,</u> a list of data elements for each recipient state and local government, used to make initial allocations of Entitlement Period 6 (Federal fiscal year 1976) funds.

4. <u>General Revenue Sharing, INITIAL INTERSTATE DATA & ALLOCATIONS Entitlement Period 6,</u> contains the detailed data definitions and data elements used to calculate initial allocations of shared revenues at the state area level for Entitlement Period 6, and includes computations for the 3 factor formula and 5 factor formula.

5. <u>GENERAL REVENUE SHARING SIXTH PERIOD ENTITLEMENTS,</u> a book in which are listed initial allocations of revenue sharing funds for the Sixth Entitlement Period for each recipient government, final Entitlement Period 5 amounts, Entitlement Period 5 adjustments, and cumulative totals of amounts allocated to each unit of general government from the beginning of the program in 1972 through Federal Fiscal Year 1976.

The documents issued by the Office of Revenue Sharing this week may be inspected in the Office of Revenue Sharing at 2401 E Street, N.W. in Washington, D. C. or in the Treasury Department Library at 15th Street and Pennsylvania Avenue, N.W. Copies have been sent to each Member of Congress and to each Governor.

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The General Revenue Sharing program was authorized by Title I of the State and Local Fiscal Assistance Act of 1972 (P.L. 92-512). The Act authorizes the distribution of $30.2 billion over a five-year period, from January 1972 through December 1976. Money is paid on a regular, quarterly basis to each unit of general government in the United States -- including nearly 39,000 states, counties, cities, towns, townships, Indian tribes and Alaskan native villages. Each recipient government's amount is allocated using formulas set forth in the law, based upon data supplied primarily by the U. S. Bureau of the Census. The data used in calculating Fifth and Sixth Entitlement Period amounts, and the allocations themselves are the subjects of the publications released by the Office of Revenue Sharing this week.

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

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FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE STEPHEN S. GARDNER
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON CONSUMER AFFAIRS
HOUSE COMMITTEE ON BANKING, CURRENCY AND HOUSING
TUESDAY, APRIL 22, 1975, 10:00 A.M.

THANK YOU, MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I am pleased to be with you today to offer strong support for the objectives of H.R. 3386, a bill which would amend the Equal Credit Opportunity Act in order to prohibit discrimination on the basis of race, color, religion, national origin, or age. The bill meets an important need to expand the reach of present law, which is confined to prohibiting discrimination on the basis of sex or marital status and generally all discrimination in lending to finance housing purchases specifically. Credit should be equally available to all worthy borrowers in our society.

Americans have long enjoyed one of the most comprehensive systems of private credit availability in the developed countries of the world. The multiplicity of credit arrangements available to our citizens are uniquely diversified both in the type of credit granted and in the type of institution or individual granting credit. With the development of electronic computerized techniques we can expect further advances in practical and useful credit conveniences. It is sound to provide a simple workable law to rule out prejudice from this system.

To provide such a law we must recognize that a decision to grant or deny credit does involve the exercise of judgment by any potential lender on such fundamental matters as the credit worthiness of the would-be borrower and the likelihood of timely repayment. In your consideration of this legislation I am sure you will take account of this fact, both in selecting a means of enforcement and in determining appropriate sanctions to assure compliance with the Act.

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We urge that the legislation or the legislative history make clear that there are certain factors that are appropriate in making credit decisions. For example, a lender considering a long-term loan to a person who is eligible for retirement or early retirement should not be precluded by the prohibition against discrimination because of age from inquiring into the plans of the prospective borrower to cease active employment before the loan is repaid. In another example, it should not be improper for a lender to seek to obligate both spouses if the decision to extend credit has relied on the assets or earning ability of both. There are other such examples that I feel sure the committee will discover in subsequent testimony which will provide additional history for the regulatory agencies charged with enforcement.

In addition, there are commonly accepted and necessary commercial practices in the business of granting credit that should not be discouraged. An example is the declination of a credit inquiry before any prepared application is submitted. Another example is the unwillingness of a financial institution to grant certain types of loans for business reasons even though such loans were offered in the past. Discrimination is difficult to detect and prevent. Even the most complete record of a credit denial does not always indicate the most important reason for the decision. The public will not be well served if the administration of the Act is cumbersome and complex and inconsistent with the non-discriminatory credit techniques that have been developed from the experience of lenders over many years.

It is my opinion that compliance with the Act will be obtained principally through the use of regulatory enforcement and wide spread publicity. The punitive clause of the bill would permit the assessment of punitive damages up to $50,000 or one percent of the net worth of a lender, whichever is greater. This presumes that large lenders such as Sears Roebuck, General Motors, Household Finance, and major banks are offenders and I have no knowledge of that possibility. I think responsible lenders may very well respond without such a threat, and it is less likely to have the same effect on the many smaller retail establishments where a large number of consumer installment contracts orginate. While some monetary penalty for noncompliance seems appropriate, it may be adequate to provide to a successful plaintiff the recovery of his or her actual damages plus all costs associated with the recovery effort, including attorneys' fees and other costs.

Section 1(b) of the bill provides an exemption for certain loan assistance programs. We would urge that the Committee be satisfied that this section of the bill does not result in the permitting of discrimination for government-sponsored lending programs when such discrimination would be prohibited in private commercial transactions.

In order to help insure that loan applicants are aware of their rights under this proposed legislation, the Committee might consider incorporating a provision requiring establishments granting credit to display suitable notices stating that discrimination in lending is unlawful. Implementing regulations could require, depending upon circumstances, that such notices be printed in more than one language.

Under the present Equal Credit Opportunity Act, an action may be brought in any United States District Court, or in any other court of competent jurisdiction, thus affording an individual a choice of Federal or state courts. However, the bill would limit individuals solely to actions in the United States District Courts. We question the need for this change, particularly considering the heavy work load of the U.S. District Courts. The Committee, if it has not done so already, might wish to consult with the Judicial Conference of the United States on this matter.

In summary the objectives of H.R. 3386 are not only commendable but a basic and integral part of our American economic system and should be incorporated into law. I commend the Committee for this work. I also urge that in your deliberations full recognition be given to the great body of experience that exists in the public and private credit systems of the country. I am sure that we can prohibit discrimination without dampening the innovation and development of beneficial non-discriminatory credit practices.

Thank you.

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

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FOR IMMEDIATE RELEASE

April 23, 1975
Contact: John P. Plum
964-2615

INDUSTRIAL GOLD PURCHASES DECLINE 31 PERCENT

Net purchases of gold for United States industrial purposes in 1974 dropped 31 percent to 4,651,000 ounces, the lowest level in 10 years, according to figures compiled by Treasury Department's Office of Domestic Gold and Silver Operations.

The total excludes an estimated 1,350,000 ounces bought for non-industrial use in December. This surge of buying was by dealers in anticipation of demand by individuals following termination of restrictions on ownership of gold at the end of 1974.

The sharp decline in industrial use last year was attributed to the rise in the price of gold and the general economic slowdown.

Gold inventories held by industrial users were reduced by 178,000 ounces during 1974. A further decline is expected this year, since the ratio of inventories to output of fabricated gold products remains high, Thomas W. Wolfe, Director of the Office of Domestic Gold and Silver Operations, said.

Net purchases of gold of 4,651,000 ounces in 1974 compared with 6,729,000 ounces in 1973, and 7,285,000 ounces in 1972. The 178,000 ounces decrease in gold inventory in 1974 compared with 91,000 ounces increase in 1973, and 32,000 ounces increase in 1972.

Gold used in jewelry and arts in 1974 amounted to 2,402,000 ounces, compared to 3,473,000 ounces in 1973, and 4,344,000 ounces in 1972. Gold used for dental purposes totaled 509,000 ounces in 1974, as against 679,000 ounces in 1973, and 750,000 ounces in 1972. The use of gold for all other industrial purposes, including space and defense, totaled 1,740,000 ounces in 1974, as compared to 2,577,000 ounces in 1973 and 2,191,000 ounces in 1972.

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

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FOR RELEASE ON DELIVERY, 10:00 A.M. EDT,
WEDNESDAY, APRIL 23, 1975

STATEMENT OF THE HONORABLE DAVID R. MACDONALD
ASSISTANT SECRETARY OF THE TREASURY
(ENFORCEMENT, OPERATIONS, AND TARIFF AFFAIRS)
BEFORE THE
SUBCOMMITTEE TO INVESTIGATE JUVENILE DELINQUENCY
OF THE COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE
ON PROPOSED FIREARMS LEGISLATION
WEDNESDAY, APRIL 23, 1975

Mr. Chairman, I am David R. Macdonald, Assistant Secretary for Enforcement, Operations, and Tariff Affairs, Treasury Department. I am pleased to be here today to discuss with you several legislative proposals which are being considered by the Treasury Department in the area of firearms regulation. Accompanying me are James B. Clawson, Deputy Assistant Secretary for Operations; James J. Featherstone, Deputy Assistant Secretary for Enforcement; Rex D. Davis, Director, Bureau of Alcohol, Tobacco and Firearms; and Marvin J. Dessler, Acting Chief Counsel, Bureau of Alcohol, Tobacco and Firearms.

This Committee has undertaken the awesome task of isolating and legislatively addressing itself to one of the most basic and distressing national problems -- that of rooting out the causes of juvenile crime. Handgun availability is undoubtedly a factor to be considered in pursuing the solution to this problem. Nevertheless, we believe that any discussion of gun control in the context of a growing problem of juvenile crime and delinquency may imply a simplistic and exclusive cause and effect relationship between the two. There is no doubt, in our opinion, that the easy availability of handguns does contribute to the opportunity to commit violent crimes and thus to the frequency with which they are committed. This may be particularly true in the case of adolescents, as indicated in Tables 3 and 4, appended to this statement.

Nevertheless, efforts at gun control legislation may address more of a symptom than a cause of juvenile delinquency. This is not to say that any legislative effort in this area will be fruitless. I would, however, qualify the importance of my testimony on gun control laws before this Committee by pointing out that deeper, more basic roots may be found to the thorny tree of violent juvenile crime in a growing lack of confidence in the ability of State and local enforcement agencies to protect the public, and to loss of faith in the ability of the judicial system to bring criminals swiftly and certainly to trial and conviction, particularly in large metropolitan areas. This loss of confidence finds objective support in the low percentage of convictions to arrests, as indicated in Table 5, appended to this statement.

This loss of faith leads naturally to a propensity on the part of citizenry to attempt their own protection from criminal elements -- hence, a race to arms for self-protection. Even beyond the loss of confidence in our judicial system, there appears to be a deeper cause of anxiety and instability in a large section of our youth which has resulted from a weakening of our social institutions. The decline in stable social institutions historically appears to have gone hand in hand with a rise in violence.

Thus, the solutions to difficulties which the Treasury Department has experienced in administering the Gun Control Act of 1968 which I am about to discuss do not purport to present a "cure-all" legislative solution to the Nation's crime problem or to youthful involvement in it. Instead, the proposals represent what the Department tentatively considers to be realistic and administratively feasible responses to some of the more critical facets of the firearms dilemma and which responses should not engender unwarranted and deleterious side-effects. These proposals have not been cleared with the Domestic Council or the President.

Generally speaking, it has been the experience of the Treasury Department that the basic precepts embodied in the Gun Control Act of 1968 present a workable format for regulating the sale of firearms in the United States. That is to say, the Federal dealer-licensee concept and its attendant recording provisions and restrictions upon the transfer of firearms have proved to be a viable approach

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to the firearms problem. Nevertheless, experience has also shown that existing law is inadequate in many respects. More specifically, the Department perceives the following to be the most critical deficiencies:

(1) the absence of sufficient licensing standards to insure that Federal licenses will only be issued to responsible, law-abiding persons who actually intend to conduct a bona fide business;

(2) the absence of controls upon the importation of parts for and the domestic manufacture and assembly of small, lightweight, easily concealable, and inexpensive handguns commonly known as "Saturday Night Specials"; and

(3) the absence of an effective statutory means to prosecute and punish felons and other dangerous persons for the possession and use of firearms.

The legislative history underlying the licensing provisions of the Gun Control Act of 1968 reflects a major Congressional concern that licenses would be issued only to responsible, law-abiding persons actually engaged in or intending to engage in business as importers, manufacturers, or dealers in firearms or ammunition. Unfortunately, it has become apparent in recent years that Congressional aspirations in this regard have been frustrated by a proliferation of applications from individuals who never intended to engage in a bona fide firearms business, but who merely desire a Federal license in order to obtain firearms or ammunition for their personal use at wholesale prices or to receive firearms in interstate commerce for that purpose. Frequently, such individuals are under-capitalized and lack both the business experience and financial capacity needed to conduct a business. In many instances no business is conducted at all, or a marginal business is carried on which disregards Federal regulations.

Present Federal law requires every applicant for a Federal firearms dealers license who pays his $10 annual fee to be issued a license within 45 days unless he is under indictment for a felony, convicted of a felony, a fugitive from justice or a drug user or addict. Consequently, the Bureau of Alcohol, Tobacco and Firearms has been compelled to issue literally thousands of licenses to individuals, not all of whom engage in the business of dealing in firearms full time. Under existing law, more than 156,000 individuals or entities are currently licensed to conduct firearms businesses in the United States. Since the passage of the 1968 Act, this figure has increased yearly. Of this number, it is estimated that less than 30 percent actually conduct a bona fide firearms business. Due to the sheer magnitude of the number of licensees, it is impossible for ATF to monitor each licensee and it is becoming increasingly difficult to maintain a meaningful and effective compliance program based upon even random or periodic inspections.

Accordingly, the Department proposes a number of interrelated amendments to the Gun Control Act which are designed to tighten existing licensing standards in order to reduce the number of Federal licensees and discourage what might be called "nominal" applications.

First, we propose amending the existing licensing standards by including a provision which would permit the Treasury's Bureau of Alcohol, Tobacco and Firearms (ATF) to inquire into each applicant's business experience, financial standing, and trade connections in order to determine whether the applicant is likely to commence the proposed business within a reasonable period of time and maintain such business in conformity with Federal law. The proposed provision has been utilized for a number of years in the issuance of liquor permits to persons engaged in liquor businesses under the Federal Alcohol Administration Act. In this regard, the provision has functioned fairly and effectively and has been reasonably construed by the courts. If incorporated into the firearms licensing area, the proposed amendment would be of significant value in weeding out "nominal" or disreputable licensees.

As an additional means of strengthening the licensing standards, we would propose an amendment which would require a finding that the business to be conducted would not be prohibited by any State or local law applicable in the jurisdiction where the applicant's premises is located.

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This provision would further a major Congressional objective in enacting the Gun Control Act which was to provide support to State and local law enforcement officials and would furnish the Department with a specific statutory basis for denying a firearms application where State and local law would prohibit the business sought to be conducted.

A third proposal is to amend the Act to create special license categories for ammunition dealers, gunsmiths and dealers in long guns only. Experience has shown that a large portion of existing licensees (perhaps 20 to 30 percent) are engaged almost exclusively in selling ammunition. In fact, many of these licensees are small "mom and pop" stores which carry ammunition only as a convenience to their customers. Under existing law, separate categories do not exist for these persons and they receive the same dealer's license that is issued to firearms dealers. The establishment of these special licenses would restrict those persons to engaging in their limited activities. Hence, neither a gunsmith nor an ammunition retailer could lawfully sell firearms, and a long gun dealer could not sell handguns, but a firearms dealer would be permitted to sell all firearms, ammunition and to repair firearms. The new licensing structure would facilitate a more efficient and economical assignment of inspection priorities since these "limited" licensees would not require the same scrutiny as would unlimited firearms dealers.

We would also propose that the fee schedule be amended by increasing license fees generally, particularly for (1) firearms dealers handling handguns and (2) pawnbrokers dealing in firearms. Thus, we would raise the handgun firearms dealer's fee to a high multiple of the present $10 paid annually which would assure that only those seriously interested in pursuing the business would pay it, and we would increase the pawnbroker - gun dealer's license to an amount which basically finances frequent inspections by ATF personnel. With regard to the increase in license fees for pawnbrokers, it should be noted that ATF's "Project Identification," which involved the tracing of firearms used in crime in eight major urban areas, reflected that 30 to 35 percent of the handguns used in crime had passed through pawnshops. In order to encourage applicants to apply for a "limited" license, we would establish substantially lower fees for gunsmiths and dealers in ammunition only, and moderate fees for firearms dealers who do not deal in handguns.

We believe that the suggested fee modifications will be reasonable and would not impose an impediment to any applicant who is truly desirous of engaging in a bona fide firearms business. Rather, the increased fees would discourage the filing of license applications by those who would not or should not qualify for licensing. From a fiscal standpoint, the increased fees would, of course, absorb a portion of the Department's costs with respect to processing and investigating license applications.

We also find that there is a need for a greater range of penalties than presently exists with which to deal with firearms dealers who violate the laws. In this connection, we believe that ATF should have authority to suspend firearms licenses and accept monetary offers in compromise for such violations. Under existing law, licenses are subject to revocation if the holder has violated any provision of law or regulation. The only alternative to administrative revocation, however, is the criminal prosecution of the licensee for violations that frequently are only inadvertent. While any violation of the Gun Control laws may be deemed to be serious, some are less serious than others and do not warrant the institution of criminal or revocation proceedings. Even inadvertent violations, however, may warrant administrative action less severe than license revocation.

The "suspension" and "offer in compromise" authority would afford ATF a more flexible vehicle with which to equitably insure compliance. Ample precedent exists for the granting of suspension and compromise authority under other laws administered by the Treasury Department, including laws relating to regulation of distilled spirits and tobacco industries. This authority would appear to be equally appropriate in the area of firearms regulation.

Turning now to the matter of handguns, the problems engendered by the proliferation of handguns in American cities has become self-evident and requires no real elaboration at this point. Suffice it to say that recent estimates place the number of handguns in America at about 40 million while deaths by handguns have increased almost 50 percent in the last decade. Accordingly, the Department's proposals embrace a number of provisions which are directed at the handgun problem generally and more specifically at the proliferation of low quality, inexpensive handguns known as "Saturday Night Specials."

In recent years the Department has carefully evaluated a number of legislative proposals which have had as their principal objective the eventual removal of the "Saturday Night Special" from the American scene. Although the various proposals have taken a wide range of approaches, all of the proposals are premised upon the fact that these small, lightweight, easily concealable and inexpensive handguns present a unique danger to the American public.

Thus far, one of the difficulties encountered in these legislative attempts to address the Saturday Night Special problem has centered around the formulation of adequate criteria to define that term. Obviously, effective proscriptions cannot be implemented against such firearms unless the law also defines with precision what weapons are to be affected. In this regard, we propose that the so-called "factoring criteria" utilized under the Gun Control Act of 1968 for determining the eligibility of handguns for importation under the "sporting purpose" test be adopted, with certain modifications, for use in the Saturday Night Special area.

Thus, we would propose that it be made unlawful for any licensed manufacturer or licensed importer to manufacture, assemble, or import for purposes of sale in the United States any handgun that has not been approved pursuant to detailed specification criteria which would be set forth in the statute. Prescribing the criteria by statute would negate the objection that mutable standards determined by administrative officials govern the trade in handguns. Under such criteria, the key characteristic would be overall size: No handgun failing to meet certain minimum size standards would be acceptable for manufacture, assembly, or importation. In the case of revolvers, a barrel length of greater than three inches would be mandatory.

In addition, various safety features would also be required before a weapon would be acceptable. Other characteristics would be dealt with by means of a point system which would take into account such characteristics as size, frame construction, weight, caliber, safety features, and miscellaneous equipment. In addition to the prerequisites of size and safety features, a pistol and a revolver to be approved for manufacture, assembly, or importation must achieve a minimum point value(85 points in the case of a pistol and 60 points in the case of a revolver).

Although the Department's proposal adopts the same fundamental approach as the existing "factoring system," the existing system has been modified somewhat by increasing the point value which must be met before a handgun is acceptable. A wider variety of characteristics are provided, however, under which a particular handgun model can achieve points. It is believed that the revised point system is more objective and provides greater flexibility to allow quality handguns to meet the criteria for approval, while at the same time eliminating the same lightweight, easily concealable, cheap handguns which have no legitimate sporting purpose. Exceptions would be provided for sales to law enforcement agencies. Modification of handguns which causes them to lose their qualification would be prohibited.

Further, our proposal would include provisions for the notification of licensed importers and manufacturers of the results of handgun evaluations and would afford judicial review of adverse decisions by ATF. In order to provide an identical test to cover both foreign and domestic handguns, we would recommend that the import provisions of the 1968 Act be amended to substitute the detailed criteria I have described for the general language of the "sporting purpose" test for importation.

Our proposals dealing with the so-called "Saturday Night Special" are directed primarily at licensed importers

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and licensed manufacturers and would, therefore, strike at the source of the problem. While these proposals would not rid the nation of these firearms, they would effectively stop the yearly flood of cheap handguns into the domestic marketplace. In this connection, recent ATF studies disclose that handguns recently acquired are those largely used in the commission of violent crimes. Moreover, given also increased controls over interstate dealings in handguns, our proposal to remove the supply source of Saturday Night Specials could place the problem where it may be adequately further regulated by State Governments as they see fit.

As the Gun Control Act now stands, second or subsequent offenders who are convicted of the offenses of carrying unlawfully or using a firearm in the commission of a Federal crime are subject to a mandatory minimum of two years imprisonment and a maximum of twenty-five years imprisonment. We believe that the Act should be modified so that a mandatory sentencing provision would be applicable to first offenders as well as to recidivists. That is to say, we would propose for first offenders a mandatory minimum sentence of one year, with a discretionary five-year maximum. The new penalty proposal would not be so harsh as to be counterproductive in terms of acceptability by courts and juries, but would serve as a more formidable deterrent to the misuse of firearms.

Finally, we propose new legislation which would prohibit felons and other classes of dangerous persons from possessing firearms. While existing law, enacted as Title VII of the Omnibus Crime Control and Safe Streets Act of 1968, was intended by the Congress to proscribe mere possession, receipt, and transportation of firearms by such persons, this law was construed by the Supreme Court on December 20, 1971, in a five to two decision in United States v. Bass to require proof of an interstate commerce nexus with respect to these offenses. More specifically, it was held that the statutory language "in commerce or affecting commerce" modified each offense defined by the statute. In deciding the Bass case as it did, the Supreme Court rejected the Government's position that mere possession constitutes a crime under Title VII, a position which was upheld by five of the six United States Courts of Appeals that had ruled on this issue.

A review of the legislative history of the existing statute convincingly demonstrates that the true intent of Congress was to prohibit mere possession of firearms by certain classes of people deemed too dangerous to society to own them. This intent, however, was thwarted by the use of inartful statutory language which led to the narrow construction by a majority of the Court. Under the doctrine of United States v. Perez, 402 U.S. 146, moreover, we believe that a valid finding can be made by Congress that the possession of weapons by such persons itself poses a threat to interstate commerce, and thus that a commerce nexus need not be proved as to each violation. Accordingly, the Department would propose to delete the troublesome language from the statute. If amended in this manner, these laws could be enforced as Congress originally intended.

Additionally, we propose to repeal existing Title VII and place the substance of its provisions, together with needed corrective amendments, within chapter 44 of Title 18, United States Code (Title I of the Gun Control Act of 1968). This chapter, of course, contains all other provisions of Federal law relative to the shipment, transportation, and receipt of firearms by felons and other proscribed categories of persons. It should also be noted that Title VII was a floor amendment to the Omnibus Crime Control and Safe Streets Act, and it is obvious that less than normal consideration was given to conforming it to Title IV of the Act, the predecessor to chapter 44. As a result, the categories of persons who are prohibited by chapter 44 from shipping, transporting, or receiving firearms in interstate commerce and to whom Federal firearms licensees may not lawfully sell firearms are not in conformity with the proscribed categories of persons under Title VII. Therefore, we propose to make these categories more closely conform.

Our proposals, Mr. Chairman, are addressed primarily to the question of interstate traffic in firearms and particularly handguns. We would like to preserve local control over gun regulation. Our studies have convinced us, however, that an interstate traffic exists with respect to guns used in crimes which deserves more Federal attention than it has received. We believe that the proposals in the area of dealer licensing are somewhat analogous to the regulation of brokers and dealers in investment securities under the Securities and Exchange Act of 1934. What we are attempting to do is place ATF in a position to control the "boilershops" in the handgun field and provide the necessary support to enable local law enforcement agencies to be effective instead of becoming engulfed in an uncontrollable interstate handgun traffic.

We also believe that these legislative proposals are acceptable to a majority of the people in this country. With the polarized state of public opinion on the subject of gun control, it is doubly important to structure laws regulating human endeavor in such a manner that the incentive to comply with the law is maximized and its enforceability is enhanced by its acceptance. A drastic extension of regulations in this area we believe can pose a real danger of creating substantial illicit traffic in handguns, controlled by organized crime groups, unless the underpinnings of public acceptance accompany the regulations sought.

We appreciate your having provided us with an opportunity to appear here today and to present our views on the subject of firearms control. At this point, my associates and I would be glad to attempt to answer any questions which the Subcommittee may have.

INDEX OF VIOLENT CRIME, UNITED STATES, 1960-1973

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UMBER OF OFFENSES:

YEAR	VIOLENT CRIMES	MURDER	FORCIBLE RAPE	ROBBERY	AGGRAVATED ASSAULT
1973	869,470	19,510	51,000	382,680	416,270
1972	828,820	18,550	46,480	374,790	389,000
1971	810,680	17,670	41,940	386,150	364,920
1970	733,530	15,890	37,690	348,460	331,480
1969	657,050	14,670	36,880	297,650	307,850
1968	590,640	13,720	31,410	261,780	283,720
1967	496,150	12,160	27,410	202,100	254,490
1966	426,830	10,970	25,620	157,350	232,890
1965	384,340	9,900	23,230	138,130	213,090
1964	361,350	9,300	21,250	129,860	200,940
1963	314,490	8,580	17,510	116,000	172,400
1962	299,150	8,480	17,410	110,410	162,850
1961	287,120	8,680	17,080	106,240	155,130
1960	286,220	9,050	17,050	107,410	152,720
'ERCENT OF :HANGE .960-1973	+203.8	+115.6	+199.2	+256.3	+172.6

Table 1

INDEX OF VIOLENT CRIME, UNITED STATES, 1960-1973

RATE PER 100,000 INHABITANTS:

YEAR	VIOLENT CRIMES	MURDER	FORCIBLE RAPE	ROBBERY	AGGRAVATED ASSAULT
1973	414.3	9.3	24.3	182.4	198.4
1972	398.0	8.9	22.3	180.0	186.8
1971	393.0	8.6	20.3	187.2	176.9
1970	361.0	7.8	18.6	171.5	163.1
1969	325.4	7.3	18.3	147.4	152.5
1968	295.5	6.9	15.7	131.0	142.0
1967	250.8	6.1	13.9	102.1	128.6
1966	218.2	5.6	13.1	80.4	119.1
1965	198.3	5.1	12.0	71.3	109.9
1964	188.9	4.9	11.1	67.9	105.0
1963	166.8	4.5	9.3	61.5	91.4
1962	161.0	4.6	9.4	59.4	87.6
1961	156.9	4.7	9.3	58.1	84.8
1960	159.6	5.0	9.5	59.9	85.2
PERCENT OF CHANGE 1960-1973	+159.6	+86.0	+155.8	+204.5	+132.9

Table 2

Table 3

TOTAL ARREST TRENDS, 1960-73
VIOLENT CRIMES

OFFENSE CHARGED	TOTAL ALL AGES			UNDER 18 YEARS OF AGE			18 YEARS OF AGE AND OVER		
	1960	1973	PERCENT CHANGE	1960	1973	PERCENT CHANGE	1960	1973	PERCENT CHANGE
TOTAL ALL CRIMES	3,242,574	4,381,968	+35.1	466,174	1,138,046	+144.1	2,776,400	3,243,922	+16.8
TOTAL VIOLENT CRIMES	92,997	215,540	+131.8	15,180	52,592	+246.5	77,817	162,948	+109.4
CRIMINAL HOMICIDE:									
a. Murder and nonnegligent manslaughter	4,541	10,629	+134.1	337	1,197	+255.2	4,204	9,432	+124.4
b. Manslaughter by negligence	1,766	1,660	-6.0	132	216	+63.6	1,634	1,444	-11.6
FORCIBLE RAPE	6,857	13,823	+101.6	1,185	2,753	+132.3	5,672	11,070	+95.2
ROBBERY	31,197	83,012	+166.1	7,352	29,336	+299.0	23,845	53,676	+125.1
AGGRAVATED ASSAULT	50,402	108,076	+114.4	6,306	19,306	+206.2	44,096	88,770	+101.3

Table 4

TOTAL ARREST TRENDS, 1972-73
VIOLENT CRIMES

OFFENSE CHARGED	TOTAL ALL AGES			UNDER 18 YEARS OF AGE			18 YEARS OF AGE AND OVER		
	1972	1973	PERCENT CHANGE	1972	1973	PERCENT CHANGE	1972	1973	PERCENT CHANGE
TOTAL ALL CRIMES	5,950,936	6,158,514	+3.5	1,555,288	1,630,722	+4.9	4,395,648	4,527,792	+3.0
TOTAL VIOLENT CRIMES	255,504	277,116	+8.5	18,334	19,519	+6.5	58,182	63,698	+9.5
CRIMINAL HOMICIDE:									
a. Murder and nonnegligent manslaughter	12,792	13,837	+8.2	1,382	1,442	+4.3	11,410	12,395	+8.6
b. Man-slaughter by negligence	2,760	2,793	+1.2	250	327	+30.8	2,510	2,466	-1.8
FORCIBLE RAPE	16,412	18,387	+12.0	3,202	3,632	+13.4	13,210	14,755	+11.7
ROBBERY	94,733	98,869	+4.4	30,227	33,712	+11.5	64,506	65,157	+1.0
AGGRAVATED ASSAULT	131,567	146,023	+11.0	23,371	24,912	+6.6	108,196	121,111	+11.9

Table 5

DISPOSITION OF PERSONS CHARGED BY THE POLICE, 1973

OFFENSE	NUMBER OF PERSONS CHARGED (held for prosecution)	PERCENT OF CHARGED: GUILTY			
		OFFENSE CHARGED	LESSER OFFENSE	ACQUITTED OR DISMISSED	REFERRED JUVENILE COURT
TOTAL	2,141,347	58.8	4.9	17.9	18.3
CRIMINAL HOMICIDE:					
a. Murder and nonnegligent manslaughter	3,234	39.7	19.9	29.1	11.3
b. Manslaughter by negligence	885	36.2	9.3	44.7	9.8
Forcible Rape	4,657	28.5	13.0	36.3	22.2
ROBBERY	23,075	29.6	9.9	25.3	35.1
AGGRAVATED ASSAULT	38,756	33.6	13.6	35.9	16.9

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

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FOR IMMEDIATE RELEASE
April 23, 1975
Contact: Priscilla Crane (202) 634-5248

Washington Township No.1, in Hall County, Nebraska will repay $3,717.50 to the Treasury Department's Office of Revenue Sharing, Graham W. Watt, Director of the Office of Revenue Sharing announced today.

When verified adjusted tax figures replaced the estimated data used to make initial payments of shared revenues for 1972, the Office of Revenue Sharing saw that Washington Township had been paid $7,435.00 more than it was entitled to receive. The Office of Revenue Sharing requested return of the money. When the Township failed to repay, the Department of Justice filed suit on behalf of the Office of Revenue Sharing in U.S. District Court to recover the excess.

Before it received the Office of Revenue Sharing's repayment demand, Washington Township had spent the full amount of its revenue sharing payments to purchase a fire truck, and made arrangements to lease the truck to the Grand Island Suburban Fire Protection District of Hall County, Nebraska, for $1.00 per year for 20 years. The Grand Island Suburban Fire Protection District serves 11 communities in three counties and the U. S. Army Cornhusker Ammunition Plant.

-more-

Township annual revenues for 1973 of $4,046.07 and expenditures of $3,463.53 made prospects dim for return of the full amount owed Treasury. The Township did have some securities purchased with proceeds from the sale of some property approximately six years ago. Under the circumstances, Watt said he did not feel justified in forcing the liquidation of the Township's only contingency reserve.

"Considering the unique circumstances of the case and the likelihood that full prosecution of this case could cost the Federal government in excess of the proposed $3,717.50 reduction in our recovery, and considering the fact that the Township complied with revenue sharing law and regulations to spend the money it had received, I authorized the U. S. Attorney to settle for not less than 50¢ on the dollar," Watt said.

The Treasury Department's Office of Revenue Sharing distributes a portion of Federally-collected individual income tax receipts to nearly 39,000 states and local general-purpose governments. Title I of the State and Local Fiscal Assistance Act of 1972 which authorized the General Revenue Sharing program, provides $30.2 billion to be distributed over a five-year period, from January 1972 through December 1976.

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

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STATEMENT BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE
THE SENATE SUBCOMMITTEE ON APPROPRIATIONS
APRIL 29, 1975
10:00 A.M.

Mr. Chairman and members of the subcommittee:

I am pleased to be here with you today to discuss the Treasury Department's budget requests for operating appropriations during fiscal year 1976 and the three-month transition between FY 1976 and FY 1977.

Let me introduce to you my associates at the table - Mr. Warren F. Brecht, Assistant Secretary for Administration; Mr. David R. Macdonald, Assistant Secretary for Enforcement, Operations, and Tariff Affairs; Mr. Donald Alexander, Commissioner, Internal Revenue Service; and Mr. Gordon Hegdahl, Acting Director of my Office of Budget and Finance.

With your permission, Mr. Chairman, I plan to make only a short opening statement on the overall Department of the Treasury budget, since I understand you have already conducted hearings with a majority of the bureau heads.

The budget before you reflects our efforts to strike a reasonable balance between the needs of the nation's economy and the needs of our department. In keeping with the President's efforts to restrict the growth of government and minimize inflation, we have requested increases only where the workload has increased. On the other hand, we have not sought to reduce spending below levels that are essential if the department is to carry out its responsibilities relating to the financial and economic affairs of the nation.

Current Treasury Activity

Fiscal year 1975 has been and will continue to be filled with an unusual amount of activity in the Department of the Treasury.

- The Fiscal Service, especially its Bureau of the Public Debt, has been engaged in an increased level of financings.

- The Internal Revenue Service is expected very shortly to compute and prepare the certification for the issuance of 80 million refund checks as part of the economic recovery effort.

- The income tax refund checks must be issued and paid by the Bureau of Government Financial Operations.

- The 35 million special one-time payments to recipients of certain retirement and survivor benefits will be processed by our Bureau of Government Financial Operations during early May, provided the appropriations pending in Congress have been enacted.

- The U.S. Customs Service has been administering the increase in oil tariffs which is part of the President's overall energy package.

These activities have been added to the ongoing workload of the Department, but we have requested supplemental funds only for the Bureau of Government Financial Operations.

I expect that some of this increased level of activity will carry itself over into the first half of fiscal year 1976, but we are not yet in a position to discuss the requirements with you today.

Fiscal Year 1976 Overview

Our estimates as contained in the President's budget for fiscal year 1976 indicate that Treasury will require a total of $2.5 billion for operating accounts. This figure is broken down in detail in Table 1.

You will note that these appropriations represent an increase of $163.9 million and 2,442 related average positions over 1975 levels. Of this amount, $36.2 million and 1,763 average positions are needed to handle additional workload which is generated outside the Department and totally uncontrollable by us. For example --

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- The Department will process over 126 million tax returns in fiscal year 1976, an increase of over 2 million from the previous year.

- We expect an increase of 9 percent in delinquent tax accounts processed and secured.

- We estimate that 38.3 million taxpayers will come to us for assistance, an increase of 6 percent over 1975.

- We anticipate that 278 million persons will be arriving at U.S. borders - 4 percent more than in 1975 - and we will be processing over 17 million formal and informal Customs entries.

- Almost 14 billion coins will be manufactured, 1.8 billion more than in 1975.

- Over 146 million savings bonds will be issued and 137 million retired.

- And the Department will issue more than 670 million checks and will pay more than 793 million checks. This represents an increase of 5 percent in the number of checks issued and a 4 percent increase in checks paid.

The only program expansion -- that is, an increase in the quality of our programs -- contained in our estimates involves $13.9 million and 55 average positions. This very modest program increase is made up of many small but necessary items scattered throughout the Department.

Treasury is requesting $55.4 million and 624 average positions just to carry on our present activities, which represents mainly the impact of inflation and full year costs of some positions added in FY 1975.

The transition budget covers our operating accounts for the period July 1, 1976 through September 30, 1976, and amounts to $624.9 million. This figure involves no program expansion. Rather, it represents the amount required to continue the fiscal year 1976 program at its previous level for three additional months, to the beginning of the new Federal fiscal year.

In addition, the amount of $58.4 million is requested for construction projects which I will discuss in a moment.

In the meantime, I would like to insert Table 2 into the record to show the relationship between our average position and dollar requirements, as well as Table 3, which provides the detailed derivation of Treasury's "Proposed Authorized Level for 1975."

Construction of Treasury Facilities

Our fiscal year 1976 budget estimates include $58.4 million for the construction of certain Treasury facilities. Of these, the major item is $40.6 million for the construction of a new Denver Mint to meet the nation's growing coinage requirements. Only eight years ago the nation's coinage requirements were less than half of what they are today. When completed and added to existing facilities, the new Mint will provide sufficient capacity to meet our coinage requirements for many years to come.

We have requested $14.3 million to complete the Federal Law Enforcement Training Center. This center was originally scheduled to be built in Beltsville, Maryland, but because of problems that arose in connection with that site, we have been seeking another location. At the request of the Senate Public Works Committee, the Department of the Treasury and the General Services Administration reviewed available military bases as possible alternatives. We are pleased to inform the committee that we have found a former naval air station in Brunswick, Georgia, that would meet our requirements if all concerned give their approval. The base in question is a former Navy training school which offers excellent facilities of recent vintage. If some of the funds previously appropriated for the Beltsville site can be used to adapt the Georgia site to our purposes, it is unlikely that we would require the additional $14.3 million included in the President's 1976 budget for construction purposes. We will work closely with the committee to keep you fully informed of our progress on this project. Because of the need for professionalism in Federal law enforcement has never been greater, we hope to make this new center fully operational as soon as practicable.

Finally, we have included $3.4 million for repairs and improvements to the Main Treasury Building. Although it is a very fine old building with many historic traditions, considerable amounts of money and time are required to keep it in useful condition. The monies we are requesting for this purpose will assure that the building will be serviceable and ready for visitors during the nation's Bicentennial celebration.

Maintenance of Current Operating Levels

Most of the $55.4 million and 624 average positions that we are requesting for the maintenance of activity at current levels is needed to cover the full-year cost of pay increases approved earlier. One item amounting to $32.3 million results from the pay increase for classified employees in October of 1974 and the additional pay of blue collar workers required by Wage Board action. The 624 average positions are entirely attributable to the annualization of positions granted by the Congress during fiscal year 1975 but not filled for a whole year. The cost of these positions has been partially offset by savings. The other items included in the $55.4 million figure relate to higher travel,

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printing and communication costs, grade-to-grade promotions, higher health benefit premiums, and one additional workday.

Summary

As you can see, Mr. Chairman, except for the construction costs, the Department of the Treasury is asking for only minimal program increases. We are attempting to hold the line on government employment to an extent commensurate with increased workload requirements.

I might add with regard to the fiscal year 1975 rescission, we are formulating our plans on the best use of the $22.5 million. The justifications before you agree with the President's budget and still take into account all of the rescissions; however, they do not take into account the program supplemental for the Bureau of Government Financial Operations.

I shall, of course, welcome the opportunity to answer any questions you may have.

Thank you.

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Table 1

THE DEPARTMENT OF THE TREASURY
Annual Appropriations for Treasury Department for 1975
and Estimated Requirements for 1976
(In Millions of Dollars)

	1975 Proposed Authorized Level 1/	1976 Budget Estimates	Increase over 1975
Regular Operating Appropriations:			
Office of the Secretary:			
Salaries and Expenses	26.2	28.1	1.9
Office of Revenue Sharing	--	2.7	2.7
Federal Law Enforcement Training Center:			
Salaries and Expenses	3.1	3.2	.1
Construction	18.9	14.3	-4.6
Economic Stabilization Activity	2.0	--	-2.0
Bureau of Government Financial Operations:			
Salaries and Expenses	113.8	120.1	6.3
Government Losses in Shipment	.6	.7	.1
Eisenhower College Grants	9.0	1.0	-8.0
Bureau of Alcohol, Tobacco and Firearms	94.4	101.3	6.9
U. S. Customs Service	289.5	304.9	15.4
Bureau of the Mint:			
Salaries and Expenses	34.6	41.4	6.8
Construction of Mint Facilities	--	40.6	40.6
Bureau of the Public Debt	97.2	98.6	1.4
Internal Revenue Service:			
Salaries and Expenses	42.2	45.3	3.1
Accounts, Collection and Taxpayer Service	725.6	772.9	47.3
Compliance	803.5	837.6	34.1
Total, IRS	1,571.3	1,655.8	84.5
Federal Tax Lien Revolving Fund	.5	--	-.5
U. S. Secret Service	82.9	95.3	12.4
TOTAL, Regular Operating Appropriations	$2,344.1	$2,508.0	163.9

NOTE: Amounts are rounded and do not add to total.

1/ Includes pay increases authorized by Executive Order 11811, effective October 1, 1974, and program supplementals for the Bureau of the Public Debt and the Internal Revenue Service.

750066
March 3, 1975

Table 2

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THE DEPARTMENT OF THE TREASURY
Comparative Statement of Average Positions
Fiscal Years 1975 and 1976
(Direct Appropriations Only)

	1975 Authorized Level	1976 Estimate	Increase over 1975
Regular Annual Operating Appropriations:			
Office of the Secretary:			
Salaries and Expenses	851	819	-32
Office of Revenue Sharing	--	100	100
Federal Law Enforcement Training Center	89	91	2
Economic Stabilization Activities	55	--	-55
Bureau of Government Financial Operations	2,515	2,518	3
Bureau of Alcohol, Tobacco and Firearms	3,825	3,938	113
U. S. Customs Service	12,748	12,812	64
Bureau of the Mint	1,758	1,934	176
Bureau of the Public Debt	2,538	2,499	-39
Internal Revenue Service:			
Salaries and Expenses	1,834	1,896	62
Accounts, Collection and Taxpayer Service	42,613	44,051	1,438
Compliance	38,050	38,488	438
Total, IRS	82,497	84,435	1,938
U. S. Secret Service	2,994	3,166	172
TOTAL, Regular Annual Operating Appropriations	109,870	112,312	2,442

750068
March 3, 1975

Table 3

THE DEPARTMENT OF THE TREASURY

Derivation of "Proposed Authorized Level for 1975"
(in thousands of dollars)

1975 Appropriation		$2,286,165
Supplemental Appropriation (Eisenhower College)		9,000
Proposed Supplementals:		
1. Pay Increase:		
a. Classified	$54,824	
b. Wage Board	2,522	
c. Executive Protective Service	1,930	59,276
2. Program:		
a. Public Debt - Provides for increased reimbursement to the Federal Reserve Banks (4,400), increased reimbursement to paying agents for redemption of savings type securities (500), reimbursement to U. S. Postal Service for increased mailings of securities (727), and increased volume and costs of printing security stock (1,373). --------------------------	7,000	
b. Internal Revenue Service - Provides for increased costs stemming from the recently enacted Employee Retirement Security Act of 1974 (Public Law 93-406). --------------------------	6,649	13,649
Rescission of Budget Authority (H. Doc. 93-398)		-24,000
Proposed Authorized Level for 1975		2,344,090

750069
March 3, 1975

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

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FOR IMMEDIATE RELEASE April 28, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.7 billion of 13-week Treasury bills and for $2.7 billion of 26-week Treasury bills, both series to be issued on May 1, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing July 31, 1975			26-week bills maturing October 30, 1975		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.570 a/	5.657%	5.83%	96.900 b/	6.132%	6.43%
Low	98.550	5.736%	5.92%	96.878	6.175%	6.48%
Average	98.555	5.716%	5.90%	96.887	6.158%	6.46%

a/ Excepting 1 tender of $600,000
b/ Excepting 2 tenders totaling $30,000

Tenders at the low price for the 13-week bills were allotted 29%.
Tenders at the low price for the 26-week bills were allotted 41%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 72,475,000	$ 29,625,000	$ 29,770,000	$ 7,535,000
New York	3,528,975,000	2,255,720,000	4,399,590,000	2,514,910,000
Philadelphia	28,240,000	27,630,000	58,495,000	8,495,000
Cleveland	53,985,000	38,985,000	149,900,000	20,380,000
Richmond	26,475,000	20,225,000	12,865,000	10,065,000
Atlanta	38,040,000	37,220,000	35,830,000	12,640,000
Chicago	313,625,000	112,815,000	311,235,000	34,310,000
St. Louis	40,065,000	30,010,000	26,445,000	10,145,000
Minneapolis	15,280,000	10,930,000	37,710,000	3,710,000
Kansas City	41,230,000	33,385,000	21,710,000	15,610,000
Dallas	33,010,000	20,300,000	14,975,000	7,175,000
San Francisco	231,175,000	83,615,000	379,390,000	55,165,000
TOTALS	$4,422,575,000	$2,700,460,000 c/	$5,477,915,000	$2,700,140,000 d/

c/ Includes $369,390,000 noncompetitive tenders from the public.
d/ Includes $151,835,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

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

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Contact: L.F. Potts
EXT. 2951

FOR IMMEDIATE RELEASE April 28, 1975

TREASURY ANNOUNCES TENTATIVE NEGATIVE DETERMINATION IN ANTIDUMPING INVESTIGATION ON VINYL CLAD FENCE FABRIC FROM CANADA

Assistant Secretary of the Treasury David R. Macdonald announced today a tentative negative determination in the investigation of vinyl clad fence fabric from Canada under the Antidumping Act, 1921, as amended. The fence fabric in question is galvanized steel wire coated with polyvinyl chloride and woven to provide an open mesh of rectangular or diamond-shaped apertures. Its chief use is as the body of chain link fence on residential or commercial properties. It is generally sold in rolls which are fifty feet long and of varying widths.

Comparisons between purchase price and home market price revealed that purchase price was equal to or greater than the home market price of such or similar merchandise.

Imports of all fence fabric, including vinyl clad fence fabric, from Canada during CY 1974 amounted to approximately 16.6 million pounds valued at approximately $6.6 million.

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

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FOR IMMEDIATE RELEASE April 24, 1975

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for 364-day Treasury bills to be dated May 6, 1975, and to mature May 4, 1976 (CUSIP No. 912793 YJ9). The bills will be issued for cash and in exchange for Treasury bills maturing May 6, 1975.

Tenders in the amount of $1,400 million, or thereabouts, will be accepted from the public, which holds $796 million of the maturing bills.

Additional amounts of the bills may be issued at the average price of accepted tenders to Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, which hold $1,006 million of the maturing bills.

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

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Wednesday, April 30, 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

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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 May 6, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 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 W04-2041

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FOR RELEASE A.M.
THURSDAY, APRIL 24, 1975

STATEMENT BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE EIGHTH ANNUAL MEETING OF
THE ASIAN DEVELOPMENT BANK
MANILA, APRIL 24, 1975

On behalf of the United States delegation, I want to express to all of you our pleasure at attending this Eighth Annual Meeting of the Asian Development Bank.

I also want to extend to you the warmest personal greetings of one of the strongest friends of this organization, the President of the United States.

In the eight months since he has taken office, President Ford has already made one visit to the Asian area. He is also meeting with a number of Asian leaders this calendar year. His trip and these meetings constitute a visible symbol of the United States' continuing commitment to this part of the world.

Role of the United States in Asia

Because of recent events in Indochina, I would like to open my remarks this afternoon by talking briefly about the United States in Asia, for it is important that all of us keep that role in perspective.

The history of American friendship and mutual cooperation with the nations of this region extends back for more than a century. We have sacrificed many of our finest young men fighting in Asia to preserve human freedoms. We have supported the efforts of many people here to gain their independence and to become viable nation-states. And we have given generously of our financial resources, contributing more economic and humanitarian assistance to regional ADB members since World War II than the rest of the world combined.

Since the last World War, U.S. bilateral concessional assistance to regional members of the ADB has totaled $35.3-billion. Moreover, we have provided a significant share of the resources of the multilateral institutions, not only the ADB to which we have contributed $342.6-million in concessional funds and share subscriptions, but also to the World Bank and IDA, to which our contributions have totaled $10.3-billion.

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As some of the countries of this region have proposed, less concessional lending has become more appropriate. The U.S. Export-Import Bank has loaned \$7.8-billion to the regional members of the ADB, of which \$1.9-billion has been lent in the past three years. I might also note that two-thirds of all allocation of our Public Law 480 program is being targeted on ADB regional members in the current fiscal year.

Against this background, the developments in Indochina are a source of deep concern for my government, as I am sure they are for all Asian Governments. The fall of the Cambodian Government less than two weeks ago, and the tragic scenes we are witnessing in Vietnam, seem to contradict the hopeful evolution which has taken place elsewhere in the region in the last several years -- an evolution toward cooperation and away from confrontation, toward peace and away from war.

I have no doubt that many governments of Asia are concerned that Indochina, and our reactions to events there, may portend a basic change in the United States' role in Asia. There have been public expressions of that concern already -- suggestions that the United States can no longer be relied upon by its friends. I can certainly understand those fears, but in view of the long history of our friendship in this region and our resolve for the future, I am confident that such fears are unwarranted.

President Ford spoke directly to these questions in a major foreign policy address to our Congress earlier this month. He urged that foreign governments not be misled, for our will remains strong and our purposes clear. In the President's words

"We will stand by our friends.

"We will honor our commitments.

"We will uphold our country's principles."

Nowhere are those views more relevant than in Asia. We have basic commitments in this region, both bilateral and multilatera We regard those commitments as important to our own interests and to the interests of the nations with which we are associated and we will uphold them. There will be no change in the fundamental direction of American policy toward Asia -- and there will be no American "withdrawal" from this vast region. Our friends need not fear, and our adversaries should beware of adopting policies which are predicated on a miscalculation of our firmness of purpose.

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The United States will continue to seek better relationships with the major Communist powers -- as we believe this benefits all nations -- but at the same time we will continue to place highest value on our relations with our friends of long-standing in Asia and around the world. We will continue to work cooperatively with our friends in maintaining and strengthening the security of Asia, and we will join our efforts to theirs in building prosperity in the region. For the United States, there can be no alternative in a world that is increasingly interdependent. The United States, as a nation of the Pacific as well as the Atlantic, must and will remain actively involved in the problems and the development of Asia.

The International Economy

Just as the United States is learning to live in an interdependent environment, so too the nations of Asia find that their economic destinies are increasingly linked to those of the global community. The challenges posed in the areas of food and fuel are but the most dramatic examples of an interdependent world. Before focusing, then, on the Asian Development Bank, let me spend a few moments reviewing the state of the international economy.

At last year's meeting of the Bank, inflation was plaguing much of the world. That inflation grew partly out of the simultaneous boom conditions of 1972 and 1973 in the major countries and partly from long-standing government policies in many countries, including my own, that served to fuel inflationary pressures. The steep increase in international food and oil prices, of course, severely aggravated that inflationary trend.

Since last year's meeting, most of our countries have moved temporarily into a generalized condition of minimum or negative growth and substantial unemployment. Inflation, while diminishing, also continues to be the most fundamental long-term economic problem facing many nations. With the acute strains of current economic conditions, there is a natural tendency for nations to turn inward and to seek economic solutions at the expense of their trading partners. Although the solutions must begin at home, we can all do a better job at solving our problems through international cooperation. Mutual prosperity depends on mutual cooperation more heavily now than ever before.

Clearly, the central challenges of international economic policy today are:

-- First, to restore economic growth and price stability around the world.

-- Second, to adapt to the energy shock in ways that will provide more secure sources of energy and will support a pattern of orderly growth; and

-- Third, to adjust our financial policies to accommodate massive shifts in international flows of funds.

The role of international development banks must be seen in the context of these challenges. But these institutions should not be diverted from their fundamental purpose of promoting long-term economic growth. They should not try to solve short-term balance-of-payment problems for which other institutions exist and for which other vehicles are being developed.

In 1974, many of the developed countries which have traditionally transferred resources and capital to the developing world were themselves unable to cover their imports of goods and services with export earnings and had to borrow on an unprecedented scale. Yet these countries, including my own, held steady in continuing their aid for developing countries. For most donor countries, this is a new situation in which they must, in effect, borrow in order to provide assistance. In most cases, the interest and terms of such borrowing are far harder than the terms of the aid they are giving.

The non-oil developing countries were also forced to increase their borrowings substantially, thereby adding to an already heavy debt burden.

For all oil-importing nations, there were also fears that the international financial system might collapse from the disruptions of traditional payment patterns and fears that some countries might even be forced into bankruptcy. Neither of these fears has materialized. Despite some strains, the financial system remains sufficiently flexible and open to adapt successfully to the changed patterns of international capital flows. We have worked together in both the public and private sectors to establish new financial techniques and mechanisms where there has been concern that supplemental arrangements were needed. Countries were also able to avoid potential bankruptcies by adjusting their domestic policies and by obtaining a certain amount of assistance from other nations. In both instances, the success of the oil-importing nations in averting possible disasters was due in no small measure to the willingness of governments to cooperate.

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Cooperation among nations has helped us to make a good beginning in coping with many new challenges facing the developing nations. In particular, establishment of the development committee associated with the International Monetary Fund and the World Bank gives us a better institutional framework for addressing the problems of the developing countries. The new committee is giving priority attention to the needs of the countries most seriously affected by a decline in their terms of trade. Among the specific items in the committee's current work program are:

-- a U.S. proposal for a special trust fund to channel funds on a highly concessional basis to the developing countries most in need;

-- a study of ways to enable developing countries to make greater use of markets; and

-- a follow-up to the conclusions reached in the World Food Conference on the financing of food, fertilizer and food production.

The United States plans to take an active part in the forthcoming meeting in June of the Development Committee. We are keenly aware of the plight in which many of the poorest countries find themselves today, and through the Development Committee we are determined to see that the international community takes appropriate action.

Already a substantial volume of funds has been made available from the International Monetary Fund's regular resources to many countries with balance of payments difficulties -- developed and developing countries alike. Moreover, about 2.5-billion SDRs have been loaned from the IMF special oil facility established last year. It has been agreed that the IMF's oil facility will be continued in 1975.

Looking beyond 1975, IMF members have agreed in principle to seek an increase in IMF quotas which will place the fund in a position to make substantial resources available to countries in need. The United States has agreed to such an increase, provided that agreement can be reached on a series of important amendments to the IMF articles of agreement.

It is our hope that agreement on this comprehensive package of quotas and amendments can be completed by the IMF's Interim Committee in June. The United States is prepared to work with other IMF members to develop arrangements under which members' access to IMF resources could be expanded and to facilitate greater usability of the Fund's currency holdings.

A major step has also just been taken to provide the international payments system with an additional measure of insurance. Together with the other OECD countries, I was pleased to have signed, two weeks ago, an agreement on a new facility to be called the Support Fund, that supplements IMF and other sources of financing. This agreement establishes a $25 billion safety net to be available to participating countries as a supplement to, but not a substitute for, established international institutions. The U.S. continues to view the IMF as the principal source of multilateral assistance for those members facing temporary balance of payments difficulties. It is our hope that this safety net will never be used, but the confidence it gives should make major contribution to the effective functioning of the international financial system. By so doing, it will help to avoid a situation in which individual countries, anxious to gain greater protection, would be tempted to take restrictive measures which would in the end be detrimental to all.

Turning to trade matters, let me reemphasize that in adapting international trade policies to the new situation, we must discourage nations from turning inwards and seeking unilateral solutions to their problems. Toward that end, the United States has recently enacted legislation, the Trade Act of 1974, which will help us to work constructively and positively toward an increasingly open world trading system. Let me reassure you that we are firm in our resolve to implement the Tokyo Declaration with its special consideration for the needs of the developing countries. A specific mandate in our Trade Act gives special consideration to developing country interest.

The forthcoming Geneva negotiations will necessarily be long, but we are working to resolve the full range of outstanding problems in international trade.

In short, while the challenges of the international economy have grown substantially in size and complexity, we are well advanced in formulating an international response that will be equal to them. The most important task now before us is to continue our efforts to meet these challenges through improved international cooperation.

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TRONGER U.S. SUPPORT FOR THE BANK

It is within this context that the United States views the eed for international cooperation to accelerate basic economic evelopment. We recognize that the Asian Development Bank is a critic ultilateral institution for furthering such development in this regio

Within the last several months, the Congress in our country as signaled our own support for the Bank by taking two importact ctions:

--Last December, $362 million was authorized as the United tates share in the Bank's replenishment of ordinary capital, and

--Last month, an appropriation was made of the second $50 illion for the Asian Development Fund and the paid-in portion f our first installment to the replenishment of ordinary capital.

Yesterday, on behalf of my government, I transferred this econd $50 million contribution to the Asian Development Fund and rranged to subscribe to a further $121 million of ordinary share apital.

We have been particularly pleased with the performance of the ank during the past year under the fine leadership of President noue. Let me highlight just a few of the trends we find most avorable:

--The Bank has recognized the importance of increasing food roduction by expanding its own support of agriculture. Last year 5 percent of all loan projects were in the agricultural sector. he Bank has also increased its lending activities for fertilizer lants and feeder roads.

--By setting up the Asian Development Fund in 1974, the Bank as established an integrated source of concessional resources for ountries with low per capita income whose balance of payments outook is not sufficiently strong to rely solely on ordinary capital oans. The Bank has also properly decided to reserve the use of oncessional funds to the poorest of its member countries.

--In addition, the Bank followed a responsible course in 1974 y raising its interest rate to 8-3/4 percent on ordinary capital oans and by adopting a split rate under which it charges 9½ percent or loans to high income countries. This is a step in the right irection toward "graduating" borrowing countries that can obtain xternal financing quite readily in the private capital market.

--The Bank's net income for 1974 has increased substantially o $26.4 million. In my view, the Bank ought to transfer some of ts net income to the Asian Development Fund, beginning next year.

--I might also note that the Bank has borrowed in the U.S. arket for the first time since 1971. I welcome this entry into ur market. At the same time, I hope that the Bank will avoid orrowing in currencies which are not internationally traded and are hus potentially subject to large and arbitrary changes in value. n stepping up its borrowing, the Bank should also be mindful of he dangers of increasing liquidity beyond its needs.

--Finally, let us recognize that the Bank has also made progress n administrative reorganization, including the establishment of an ndependent evaluation group. This sets the stage for further improvement in implementation of loans.

In considering the progress made by the Bank, it is wise to remember that the amount of new loans is not itself the measure of the Bank's contribution to sustained economic development in its member countries. The key measure of the Bank's role is how much development actually takes place, and this depends on the quality of bank-supported projects and on the Bank's contribution to the process of building institutions, training personnel, and setting reasonable priorities within member countries.

Looking ahead to the coming year, we see the Bank planning to expand its lending program, increase the volume of resources in the Asian Development Fund and, later, to increase the Bank's capital base.

Concerning the Asian Development Fund, my own government still has $50 million to be appropriated by our Congress before we can contemplate seeking authorization for additional resources. As we address the question of additional funding within the United States, I strongly urge that, apart from seeking new resources from member countries, the Bank also make every effort to obtain participation and special contributions from non-member countries that have especially strong external positions.

As for ordinary capital, the Bank recently has been able to obtain some special increases in capital from Indonesia and Malaysia, and I understand that within the next year it will obtain a special increase from the Federal Republic of Germany. It would be highly desirable if member countries in a position to do so would make available similar special increases to the Bank's ordinary capital.

Given the Bank's tight resource position, it will also be important to make every effort to fund new projects in cooperation with private investors and banks in the form of parallel and joint financing. By actively seeking this type of arrangement, the Bank could, with a given amount of its resources, contribute more widely to the development of its member countries.

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The private sector is important to the Bank, not only as a lender but also as a recipient of bank loans. In fact, since ›rivate sector free from government controls is the most certain ıerpinning for economic development, the Bank should seek to increase : share of its lending to productive enterprises outside the public ıere.

With the very rapid growth in lending over the last few years, would be prudent in the period immediately ahead to concentrate improving the quality of new loans and on continuing to seek more ;ective implementation of loans underway. To further this effort, : Bank must work toward a system of more intensive project supervision. the Bank becomes stronger it should also become more active in : difficult sectors where innovative lending is needed--such as rural development and small town water supply projects which reach ver income groups.

We hope the Bank will also continue to strengthen its cost :imating procedures for projects in order to avoid the cost :rruns that have become a major problem for the institution. I :ongly believe that cost overruns should normally be financed ›m other sources, leaving funds of the Bank available for new ›jects. Assuming the projects financed by the Bank are among the ;hest priority undertaking for the borrowing country, alternative ıancing can be found.

While increased production and productivity should remain the ief objective in agricultural loans, we believe the Bank should ;o place special emphasis on projects which ensure that benefits ll be widely shared among the rural population of its member countries.

With regard to post-project evaluation, I congratulate the Bank its adoption of an independent audit mechanism. This year the ık should move ahead rapidly to schedule the evaluation of projects ler this new independent arrangement.

NCLUSION

Gentlemen, if I may, I would like to conclude my remarks with ›rief personal note.

This visit to Manila, where the Philippines government has been :h a gracious host, brings me near the end of an extended trip ›und the world. In Paris, I signed the agreement establishing : $25 billion support fund that I mentioned earlier. In Moscow, led an American delegation that discussed means of increasing ıde with the Soviet Union. I also met there with General Secretary :zhnev, where we exchanged assurances that each of our countries ıained firmly committed to a policy of detente.

During the seven days that followed I had the privilege of ;iting two Asian countries, India and Sri Lanka. In New Delhi, ıet with Prime Minister Gandhi and in Colombo, with Prime Minister of increasing mutual cooperation between our countries.

Throughout this journey, I have been struck by one central fact: the nations of the world today share the same aspirations. All of us yearn for peace and economic progress. All of us want to overcome the uncertainties and complexities of today's environment. And all of us want our children to grow up in a world that is secure from hunger and war.

Across the globe, there is talk today of crisis--the crisis of hunger, the crisis of the international economy, the crisis of Indochina, and so on. The list is long and imposing. But in each country that I visited, there is also a recognition that in every crisis, there is also opportunity.

We have within our grasp today the opportunity to build an international community in which the blessings of economic and social progress can be extended to every child. Certainly, we have our problems. We will always have them in the international community. But let us not allow our problems to become insurmountable barriers or to obscure the interests that we share together. Let us instead meet these problems head-on by recognizing our common bonds and working together to find solutions.

The United States is eager to participate in this process. As we prepare to celebrate the tenth anniversary of the signing of the charter for the Asian Development Bank, I pledge to you that the United States shall remain a steadfast friend in the search for peace and economic progress.

Thank you.

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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Contact: Peter O. Suchman
964-5538

FOR IMMEDIATE RELEASE April 24, 1975

DETERMINATION IN COUNTERVAILING DUTY INVESTIGATION
OF EC DAIRY PRODUCTS

Acting Secretary of the Treasury Gardner today announced that a final determination has been made in the countervailing duty investigation of Dairy Products exported from the European Community. Notice of Receipt of Petition in this case was published in the Federal Register on January 15, 1975, and a Preliminary Determination that bounties or grants exist was published on February 14.

Acting Secretary Gardner said that as a result of extensive discussions between representatives of the Commission of the European Community and the U. S. Government the EC has taken a number of significant actions to modify the EC system of restitution payments as it applies to dairy exports to the U. S., including the suspension of restitutions on cheeses for further processing. These actions have in large part met the concerns of representatives of the domestic U. S. dairy industry and the U. S. Government that the EC restitution system was creating a situation of unfair competition for domestic producers. It has therefore been determined that although the EC restitution system, as it applies to dairy products exported to the U. S., does constitute a bounty or grant within the meaning of the U. S. Countervailing Duty Law, the criteria of Section 331 of the Trade Act of 1974, providing for the waiver of imposition of countervailing duties in certain circumstances have been met. This determination follows after consultation between the Treasury Department and representatives of the domestic producers, other concerned agencies of the Executive Branch, as well as interested members of Congress. Countervailing duties will not be imposed on those EC cheeses still benefitting from restitution payments during the period of applicability of the waiver provision, and so long as the statutory criteria continue to be met.

Section 331 of the Trade Act provides that the Secretary of the Treasury may, for four years following enactment of the Act, waive countervailing duties on an import if he determines that adequate steps have been taken to reduce substantially or eliminate the adverse impact of any bounty or

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grant; that there is a reasonable prospect for successful multilateral trade negotiations; and that imposition of the waived duties would be likely to seriously jeopardize those negotiations. The waiver must be revoked if the basis supporting the determination ceases to exist, and the waiver is subject to an override by either house of Congress.

It should be noted that the waiver applies only to certain high quality specialty and table cheeses and not to those products, more generally used for processing, which directly compete with domestically produced cheese. EC restitutions on the latter have been removed, therefore, no additional duties would be appropriate on those products so long as no restitution payments are being made. Acting Secretary Gardner pointed out that this decision will afford domestic producers protection from subsidized competition while not unnecessarily raising the prices to consumers of non-competitive cheese imports.

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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
Tuesday, April 29, 1975
Contact: Priscilla R. Crane (202) 634-5248

The U. S. Treasury Department's Office of Revenue Sharing and the U. S. Department of Housing and Urban Development (HUD) formally agreed today to work together to resolve complaints of discrimination involving States, local governments, their contractors and secondary recipients spending General Revenue Sharing funds.

A Memorandum of Agreement was signed this afternoon in a plenary session of HUD's "Conference on Fair Housing and Funding" at the Ramada Inn in Rosslyn, Virginia by Graham W. Watt, Director of the Office of Revenue Sharing and Gloria E.A. Toote, Assistant Secretary of HUD for Equal Opportunity.

The Agreement provides that when the Office of Revenue Sharing receives a complaint alleging discrimination in a program where HUD has civil rights compliance responsibility, (in the activities of housing and urban renewal authorities or programs involving community development block grants, for example) the matter will be referred to HUD for investigation.

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Where HUD independently investigates a complaint of discrimination and finds that General Revenue Sharing funds are involved, the Department will notify the Office of Revenue Sharing. The Office of Revenue Sharing then will notify the recipient government involved, using procedures established in revenue sharing regulations.

The Office of Revenue Sharing and HUD will keep each other fully informed on matters of common concern.

Nothing in the agreement diminishes in any way the responsibility of the Director of the Office of Revenue Sharing to make his own determination of discrimination in the use of General Revenue Sharing funds, based on whatever facts and evidence are available to him.

Title I of the State and Local Fiscal Assistance Act of 1972, which established the General Revenue Sharing program, provides that "No person in the United States shall on the grounds of race, color, national origin or sex be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity funded in whole or in part with ... (general revenue sharing funds)."

To assist in monitoring compliance with the civil rights and other provisions of revenue sharing law, the Office of Revenue Sharing has developed an innovative system which enlist the assistance of other Federal and State agencies whose responsibilities relate to revenue sharing compliance activities.

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The Office of Revenue Sharing draws on resources and expertise already in place; rather than to duplicate what already exists. Cooperative working agreements have been concluded with the U. S. Equal Employment Opportunity Commission, State audit agencies in nearly all States, and with the Maryland Commission on Human Relations. The arrangement with Maryland's civil rights agency, concluded yesterday, is the first of a series of comparable agreements to be negotiated with State civil rights agencies throughout the country.

Revenue sharing law authorizes the distribution of $30.2 billion to nearly 39,000 states, counties, cities, towns, townships, Indian tribes and Alaskan native villages over a five year period that ends with December 1976.

Already, some $18.9 billion has been distributed. The next quarterly payment of shared revenues will be made in July 1975.

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FOR RELEASE UPON DELIVERY

DEPARTMENT OF THE TREASURY
STATEMENT OF
THE DEPUTY SECRETARY OF THE TREASURY
STEPHEN S. GARDNER
BEFORE THE
SUBCOMMITTEE ON ECONOMIC STABILIZATION
OF THE
HOUSE COMMITTEE ON BANKING, CURRENCY AND HOUSING
APRIL 29, 1975

Mr. Chairman and Members of the Subcommittee: I am pleased to appear before you in support of H.R. 6078, a bill to establish a National Center for 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.

Productivity is a matter of fundamental importance to the U. S. economy. Improved productivity is the only basic source for a rising national standard of living. It would provide major anti-inflation benefits. 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 the unfavorable comparisons may reflect cyclical conditions and the large size of our mature economy which increasingly emphasizes services and immediate consumption.

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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.

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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 Productiviey and Work Quality is attached for the record.

Summary

We commend the Committee for its efforts to focus attention on the vital subject of productivity. We believe the proposed National Center for Productivity can serve as a catalyst in coordinating labor, management and governmental efforts to stimulate productivity growth. While there are numerous government agencies and programs that are concerned about productivity problems, there is a need to coordinate all of these efforts, the success of which will directly effect the future of the U. S. economy. We urge prompt legislative action on H.R 6078 so that the kinds of delays and uncertainties that too often existed in the past can be avoided.

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SUMMARY* OF FY 1975 ACTIVITIES OF THE NATIONAL COMMISSION ON PRODUCTIVITY AND WORK QUALITY

Accomplishment for the National Commission on Productivity and Work Quality is measured by its ability to cause elements of an industry, economic sector or public service to engage themselves in an effective effort to improve their own performance. Given that catalytic role, it is important to realize two things: 1) individual successes are the result of many participants and credit belongs to all; and 2) individual successes represent milestones in a more important continuing effort towards improvement.

During FY 1975 the Commission itself was successfully reorganized to allow for the effective participation of its membership in its purpose. An executive committee and functional area work groups of Commission members have worked both on directing the efforts of the staff and initiating activities on their own. The work of the Commission toward improving productivity is divided into four different categories:

1. Quality of Work - labor/management committees and behavioral science applications to the work place;

2. Public Sector - including Federal, State and local governments;

3. Private Sector - food distribution, health care, construction and transportation industries; and

4. Education.

*Note - A more detailed description indicating the background and context in which projects were selected may be found in Part II of the Commission's 4th Annual Report.

QUALITY OF WORK

In response to 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 printed and material is now being edited that will result in case studies of 8-10 public sector committees.

On the plant/community level the NCOP and WQ has held five conferences in Illinois, Wisconsin and New York (with FMCS), with plant-level technical assistance follow-up by State Institutes of Labor Relations. At least a half-dozen sites will be setting up committees aided by the knowledge these conferences provided.

Additionally, the results of these meetings are being 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 behavioral science field the Commission is evaluating the impact of two types of increasingly popular programs on productivity for use by managers and labor leaders.

- A participatory incentive plan in a large corporation (DeSoto Paint Corporation).
- Flexible working hours in a service industry (First National Bank of Boston).

Work (in cooperation with DOL) is being done to produce guides for the appropriate application of behavioral 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).

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PUBLIC SECTOR

In the public sector the NCOP and WQ has supported and encouraged the efforts of the OMB, CSC, and 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 was 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 20 cities into productivity improvement programs with development of follow-up guidance during the initial months of effort.

- A series of five Productivity Workshops were held for state and local officials to facilitate the transfer of improved methods between jursidictions.

- 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.

The successful Solid Waste and Police productivity projects are being followed by a similar effort in government inspections with draft guides for local managers expected by the end of June. Also, in the Police sector, a major conference on productivity improvement techniques was recently held (with the Police Foundation) for 200 police chiefs and mayors from across the country.

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. and the University of Southern California; and

- Stimulating the industry toward development of orderly manpower adjustment programs.

In health care the following projects have been undertaken to contribute to increased productivity:

- Over 100 practitioners identified opportunities to increase productivity throughout the industry;

- 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;

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- Removal of IRS barriers to hospital employee incentive programs; and

- 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; and

- 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 central issue in the fiscal viability of the railroad industry as well as in the capacity to provide the increased service required by the American economy.

Accordingly, work on the interchangeability of freight cars has resulted in a "clearinghouse" experiment designed to eliminate excessive movement of empty cars. With three cooperating railroads, this experiment shows substantial direct operating savings, reduced capital investment and significantly better service to shippers.

To encourage efficient capital investment practices, 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 the 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. The staff is working with the railroads and additional industries to increase the application of this method of train operation.

EDUCATION

To continue its efforts in technical education, the Commission maintains a series of publications of value to those working on productivity programs. These include such studies as:

- "The Role of Productivity in Controlling Inflation."

- Productivity centers 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."

Altogether, the Commission has completed 18 publications which have been distributed to key managers, government officials and others throughout the country. An additional 12 publications are in various stages of completion.

The Commission also works actively with other Federal agencies on the design and implementation of research agendas.

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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 200 million contacts with the public. Materials have been requested and used by over:

2,500	Radio Stations
1,000	TV Stations
1,000	Newspapers
600	Magazines
100,000	Trains and Buses
3,500	Billboards

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FOR IMMEDIATE RELEASE April 29, 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 $5,600,000,000 , or thereabouts, to be issued May 8, 1975, 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 February 6, 1975, and to mature August 7, 1975 (CUSIP No. 912793 XH4), originally issued in the amount of $2,400,740,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,800,000,000, or thereabouts, to be dated May 8, 1975, and to mature November 6, 1975 (CUSIP No. 912793 XW1).

The bills will be issued for cash and in exchange for Treasury bills maturing May 8, 1975, outstanding in the amount of $4,802,370,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,624,305,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Monday, May 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

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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 May 8, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 8, 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

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Contact: J.G. Wallar
x 2951

FOR IMMEDIATE RELEASE April 29, 1975

TREASURY ANNOUNCES INITIATION OF COUNTERVAILING DUTY INVESTIGATION

Assistant Secretary of the Treasury David R. Macdonald announced today the issuance of a "Notice of Receipt of Countervailing Duty Petition and Initiation of Invesgiation", on hydrogenated castor oil and 12 hydroxystearic acid from Brazil. These castor oil products are used in the manufacture of heavy lubricants. The Notice will appear in the Federal Register of Wednesday, April 30, 1975.

The Notice states that on March 10, 1975, a petition in satisfactory form was received alleging that payments or bestowals, conferred by the Government of Brazil upon the manufacture, production or exportation of these castor oil products from Brazil constitute the payment or bestowal of a bounty or grant within the meaning of the Countervailing Duty Law (19 U.S.C. 1303). Under the statute, the Treasury has six months from the date of receipt, until September 10, 1975, to make a preliminary determination, and 12 months, until March 10, 1976, to make a final determination. If Treasury finds that a bounty or grant has been paid or bestowed, the imports in question would be subject to an additional "countervailing" duty equivalent to the net amount of the bounty or grant.

During calendar year 1974 imports of hydrogenated castor oil from Brazil were valued at $833,000. For the same period imports of 12 hydroxystearic acid from Brazil were valued at $230,000.

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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
Monday, April 28, 1975
Contact: Priscilla R. Crane (202) 634-5248

The first cooperative agreement between the U.S. Treasury Department's Office of Revenue Sharing and a State human rights agency was signed at the Treasury Department today. Elbert L. Guillory, Executive Director of the Maryland Commission on Human Relations and Graham W. Watt, Director of the Office of Revenue Sharing executed the agreement at a ceremony presided over by Edward C. Schmults, Under Secretary of the Treasury.

The agreement signed today is the first of a series of comparable arrangements that the Office of Revenue Sharing plans to make with the 35 State human rights agencies which are recognized by the U. S. Equal Employment Opportunity Commission. These agreements will facilitate thorough investigation of the civil rights requirements which relate to expenditures of shared revenues by States and local governments that receive the funds.

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The Maryland-Office of Revenue Sharing agreement provides that the Office of Revenue Sharing will advise the Maryland Commission on Human Relations of all complaints alleging discrimination in the use of General Revenue Sharing funds by any general government in Maryland, by secondary recipients or by their contractors. The Maryland Commission on Human Relations may then assist in the investigatory process by conducting compliance reviews of the jurisdictions about which complaints have been raised.

The Maryland Commission on Human Relations will extend its ongoing monitoring and enforcement activities to include reviews of compliance with the civil rights provisions of the revenue sharing law. Where there is reason to believe that discrimination in violation of the revenue sharing law has occurred, the Maryland Commission will advise the Office of Revenue Sharing and the Office of Revenue Sharing will move to resolve the problem.

Where the Maryland Commission has conducted a review, the Office of Revenue Sharing will give the State's findings substantial weight. A determination by the Maryland Commission will not preclude the Office of Revenue Sharing from making its own determination, however. Likewise, a determination by the Office of Revenue Sharing will not preclude the Maryland Commission from making a separate determination with respect to State statutes and other laws under its jurisdiction.

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The Office of Revenue Sharing and the Maryland Commission on Human Relations will coordinate their work and cooperate in all revenue sharing-related civil rights reviews that take place within the State.

On a confidential basis, the two agencies will exchange information relevant to adequate enforcement of the civil rights provisions of revenue sharing law within the State of Maryland.

The proposed agreements with State civil rights agencies, of which today's is the first, are to be part of the Office of Revenue Sharing's innovative audit and compliance system. The Office of Revenue Sharing is drawing upon capabilities already existing in the Federal and State governments, as part of its overall program to assure compliance with all provisions of revenue sharing law.

The Office of Revenue Sharing already has consummated cooperative audit agreements with most States in the United States through which State audit agencies are including reviews of compliance with provisions of revenue sharing law in their regular audits of state agencies and units of local government.

The State and Local Fiscal Assistance Act of 1972 which authorizes the General Revenue Sharing program provides that "no person in the United States shall on the grounds of race, color, national origin or sex be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity funded in whole or in part with .... (revenue sharing funds)."

Shared revenues must be spent in accordance with the State and local laws and procedures which apply to the expenditure of a recipient government's own funds. General Revenue Sharing money may not be used to match other Federal funds. And if 25% or more of a construction project involving $2,000 or more is paid from shared revenues, then the Davis Bacon Act minimum wage rates must be paid.

Revenue sharing law further provides that State governments may spend their revenue sharing dollars in any area of activity. Local units of government may spend their shared revenues for any capital purpose or for operating and maintenance of programs in any one or more of eight priority categories specified in the law.

The State and Local Fiscal Assistance Act of 1972 was signed into law on October 20, 1972. Since then, $18.9 billion have been distributed to nearly 39,000 States and local governments throughout the United States. The law authorizes the distribution of $30.2 billion over a five year period that ends with December 1976.

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE April 29, 1975

Contact: Helene Melzer, 964-8706

ANITA F. ALPERN BECOMES TREASURY'S FIRST WOMAN GS-18 CIVIL SERVANT

With today's announcement of the appointment of Anita F. Alpern as Assistant Commissioner for Planning and Research in the Internal Revenue Service, the Treasury Department attains its first career-level woman GS-18, the highest level in the Civil Service merit system. Only 8 women have reached that level in the classified Federal Service.

"The promotion of Anita Alpern to the highest grade in the Civil Service is indeed well deserved and marks a milestone in the annals of the Treasury Department," said Warren F. Brecht, Assistant Secretary (Administration), who has responsibility for Treasury's Equal Opportunity Program. "I have worked closely with Anita over the past two years and regard her highly. Her achievement points the way for other women."

Miss Alpern, who had been Deputy Assistant Commissioner, and then Acting Assistant Commissioner, following the retirement of Dean Barron last December, had, as a GS-17, already been Treasury's highest ranking woman in the career service.

The Director of the Mint and the Treasurer of the United States, both appointed by the President, subject to Senate confirmation, have the same grade-level equivalent, but are not part of the competitive service.

Miss Alpern, 55, began her government service in 1942 as a P-1 (now GS-5) economist with the U.S. Employment Service, then the Bureau of Employment Security. In 1947, she transferred to the Department of Defense, where she served successively as administrator, senior program analyst, and systems research analyst in the Office of the Secretary.

She joined the Internal Revenue Service in 1960 as a management analyst, and subsequently was appointed chief of the analytical services staff, collection division.

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In 1972, Miss Alpern became the first IRS "supergrade" woman with her promotion to Director, Program Review and Analytical Service Staff, and in December 1973, she was appointed Deputy Assistant Commissioner for Planning and Research, as well as Director, Planning and Analysis Division.

In the course of her IRS career, the new Assistant Commissioner has developed analysis systems for tax collection programs, supervised the design for systems to forecast workloads and taxpayer assistance problems, tax collection and tax returns processing.

In her new post, Miss Alpern coordinates national Internal Revenue Service plans and policies, organization and procedures, and directs all legislative, research and operations analysis and tax systems redesign.

Miss Alpern was born in New York City and earned a B.A. in political science at the University of Wisconsin, later completing graduate courses in public administration at Columbia University. She has earned numerous awards at IRS, including nominations in 1966, 1971 and 1973 for the Federal Woman's Award; Outstanding Efficiency Ratings in 1966, 1967, 1968 and 1971, the latter with a high quality increase; and a Special Act of Service Award in 1963. At DOD, she also earned Outstanding Efficiency Ratings in 1952 and 1956, and was nominated for an American Management Association scholarship in 1955.

Since October 1974, Miss Alpern has been chairperson of the Treasury Women's Advisory Committee, a top-level group of women who advise the Secretary of the Treasury on the special activities of women within the Department.

Miss Alpern is vice president of the National Capital Area Chapter of the American Society for Public Administration. She is a member of the District of Columbia Society of Crippled Children, and of the Board of Directors of the Federal Executive Institute.

She has lectured on management by objectives and on leadership techniques at the University of Southern California, the Civil Service Commission and the Department of Interior and has written articles on related topics.

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FOR IMMEDIATE RELEASE April 30, 1975

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $1,400 million of 52-week Treasury bills to be issued to the public, to be dated May 6, 1975, and to mature May 4, 1976, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 1 tender of $85,000)

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	93.578	6.351%	6.79%
Low -	93.508	6.421%	6.86%
Average -	93.529	6.400%	6.84%

TOTAL TENDERS FROM THE PUBLIC RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted
Boston	$ 33,840,000	$ 3,545,000
New York	2,290,950,000	828,770,000
Philadelphia	27,500,000	7,500,000
Cleveland	59,070,000	24,030,000
Richmond	30,915,000	20,035,000
Atlanta	13,220,000	7,220,000
Chicago	321,560,000	159,040,000
St. Louis	39,565,000	14,695,000
Minneapolis	26,445,000	21,445,000
Kansas City	17,755,000	8,225,000
Dallas	34,070,000	10,190,000
San Francisco	497,620,000	296,470,000
TOTAL	$3,392,510,000	$1,401,165,000

The $1,401,165,000 of accepted tenders includes 12 % of the amount of bills bid for at the low price and $56,035,000 of noncompetitive tenders from the public accepted at the average price.

In addition, $1,033,225,000 of tenders were accepted at the average 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

April 30, 1975
Contact: Stanley Sommerfield
964-2394

FOREIGN ASSETS CONTROL REGULATIONS

The Treasury Department today, at the request of the State Department, announced that Foreign Assets Control Regulations are now in effect with respect to South Vietnam. The effect of these regulations is to prohibit all financial and commercial transactions with South Vietnam unless permitted by license by Treasury's Office of Foreign Assets Control.

While this action includes the blocking of South Vietnamese government accounts in the United States and overseas, as well as all accounts of persons acting or purporting to act on behalf of South Vietnam who are not now in the United States, accounts of private and official Vietnamese who are now in the United States will not be affected. Accounts of South Vietnam officials overseas who no longer act, or purport to act, on behalf of South Vietnam will also not be affected.

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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
Thursday, May 1, 1975
Contact: Priscilla R. Crane (202) 634-5248

In a joint agreement signed today, the Treasury Department's Office of Revenue Sharing (ORS) and the Equal Employment Opportunity Commission (EEOC) began preparation of "Guidebook on Equal Employment for Public Employers." The book is scheduled for publication in the summer of 1975.

The new guide will be designed primarily to assist public employers to comply with the civil rights provisions of the State and Local Fiscal Assistance Act of 1972, which authorized the general revenue sharing program. In addition, the book is to contain summaries of other, relevant Federal laws; and it will include a section on non-employment aspects of revenue sharing law.

An independent consultant will research and write the guide, under contract to the Office of Revenue Sharing, at an estimated cost of $10,000.

The lead agency to provide research assistance to the consultant will be EEOC; and the ORS and EEOC jointly will be responsible for production and distribution. The Educational Programs Division, Office of Voluntary Programs, of EEOC and the Compliance Division of ORS will represent their respective agencies in this project.

"This project is one of a number of new efforts being undertaken jointly under the terms of a cooperative agreement that was signed by the Equal Employment Opportunity Commission and the Office of Revenue Sharing in October 1974," Graham W. Watt, Director of the Office of Revenue Sharing,

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announced today. "That agreement established procedures to assist both agencies to resolve complaints of employment discrimination against public employers and their contractors," Watt added.

General Revenue Sharing is a five-year program which is returning $30.2 billion to some 39,000 states and local governments through December 1976. More than $17 billion has been paid to recipient governments since the first funds were distributed, in December 1972. President Ford will ask the Congress early this spring for an extension of the program.

Revenue Sharing law provides that "no person in the United States shall on the ground of race, color, national origin, or sex be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity funded in whole or in part with funds made available under ..." the program.

Today's agreement for production of the new guidebook was signed for the Office of Revenue Sharing by its Director, Graham W. Watt, and for the EEOC by its Acting Executive Director, Harold S. Fleming.

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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 May 1, 1975

TREASURY ANNOUNCES MAY REFINANCING

The Treasury will auction to the public next week up to $2.75 billion of 3-1/4-year notes, up to $1.50 billion of 7-year notes, and up to $0.75 billion of 30-year bonds. This will refund $3.8 billion of notes held by the public maturing May 15, and will raise $1.2 billion new cash. Additional amounts of the 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, which hold $4.7 billion of maturing notes.

The notes and bonds to be auctioned will be:

Treasury Notes of Series E-1978 dated May 15, 1975, due August 15, 1978 (CUSIP No. 912827 EL 2) with interest payable on February 15 and August 15, 1976, and thereafter on February 15 and August 15,

Treasury Notes of Series A-1982 dated May 15, 1975, due May 15, 1982 (CUSIP No. 912827 EM 0) with interest payable on May 15 and November 15, and

Treasury Bonds of 2000-05 dated May 15, 1975, due May 15, 2005, callable at the option of the United States on any interest payment date on and after May 15, 2000 (CUSIP No. 912810 BU 1) with interest payable on May 15 and November 15.

The coupon rates for the notes and bonds will be determined after tenders are allotted.

Payment for the securities must be made on May 15, 1975, except that payment for the bonds may be deferred until June 2, 1975. Payment may not be made through tax and loan accounts. The 3-1/4-year notes will be issued in denominations of $5,000, $10,000, $100,000 and $1,000,000. The 7-year notes and the bonds will be issued in denominations of $1,000, $5,000, $10,000, $100,000 and $1,000,000. The securities will be issued in registered and bearer form and will be available for issue in book-entry form. Definitive 3-1/4-year notes in bearer form will be delivered on or about May 27, 1975. Definitive 7-year notes and bonds in bearer form will be delivered on or about May 28, 1975. Definitive bearer bonds will be delivered on or about May 28, 1975, and June 2, 1975. Purchasers of bearer securities may elect to receive interim certificates on the payment date, which will be bearer securities exchangeable at face value for securities of the appropriate issue when available.

Tenders for the 3-1/4-year notes will be received up to 1:30 p.m., Eastern Daylight Saving time, Tuesday, May 6, tenders for the 7-year notes will be received up to 1:30 p.m., Eastern Daylight Saving time, Wednesday, May 7, and tenders for the bonds will be received up to 1:30 p.m., Eastern Daylight Saving time, Thursday, May 8, at any Federal Reserve Bank or Branch and at the Bureau of the Public Debt, Washington, D. C. 20226; provided, however, that noncompetitive tenders will be considered timely received if they are mailed to any such agency under a postmark no later than May 5 for the 3-1/4-year notes, May 6 for the 7-year notes, and May 7 for the bonds. Tenders for the 3-1/4-year notes must be in the amount of $5,000 or a multiple thereof. Tenders for the 7-year notes and the bonds must be in the amount of $1,000 or a multiple thereof. Each tender must state the yield desired, if a competitive tender, or the term "noncompetitive", if a noncompetitive tender.

Competitive tenders 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 100.000 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 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, 98.251 for the 7-year notes, and 92.501 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 100.000 or less.

Fractions may not be used in tenders. The notation "TENDER FOR TREASURY NOTES (Series E-1978 or A-1982)" 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

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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 Thursday, May 15, 1975, at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt, except that payment for up to 100 percent of the amount of bonds allotted may be deferred until June 2, 1975, as set forth in the following paragraph. Payment must be in cash, 6% Treasury Notes of Series B-1975 or 5-7/8% Treasury Notes of Series F-1975, which will be accepted at par, in other funds immediately available to the Treasury by May 15, or by check drawn to the order of the Federal Reserve Bank to which the tender is submitted, or the United States Treasury if the tender is submitted to it, which must be received at such bank or at the Treasury no later than: (1) Monday, May 12, 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) Friday, May 9, 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 payment for the bonds is to be deferred until June 2, 1975, the bidder must indicate on the tender form the amount of bonds allotted on which payment will be deferred. Accrued interest from May 15 to June 2, 1975, will be charged on the deferred payment at the coupon yield established for the bonds. In the case of partial payments 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.

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<u>Comments to the Press Regarding Treasury Financing</u>

by

Jack F. Bennett
Under Secretary of the Treasury
for Monetary Affairs
4:00 PM, May 1, 1975

Ladies and Gentlemen:

We appreciate your coming here today, for we are grateful for your help in making the details of our Treasury security offerings widely known. This is the fourth such conference this year.

Over the course of these conferences the estimates of the Government's needs to borrow from the public over the current half year period have varied. On January 22 the estimated increase in indebtedness to the public from December 30, 1974 to June 30, 1975 was $28 billion. On February 24 the estimate was up to $38 billion. A month ago on March 31 the estimate was $41 billion. Today our best estimate is $36 billion. Since that last conference tax payments have been coming in larger than expected so that the estimate of total budget receipts for the current fiscal year ending June 30 have been revised upward from $275 billion to $282 billion, though of course, considerable uncertainty remains even for this fiscal year's receipts.

Of the total of $36 billion of expected increase in debt outstanding in this half year $28-1/2 billion has already been accomplished or announced through the first four months, that is through yesterday, April 30, leaving $7-1/2 billion still to be arranged. Of that amount some portion is expected to be arranged through sale of Savings Bonds, leaving $6-3/4 billion to be raised net through sales of marketable securities to the public in issues not yet announced, that is in addition to the sales we have already announced through the sale of 3 and 6 month bills to be paid for on Thursday of next week.

That $6-3/4 billion net still to be raised in the market is in addition to amounts to be raised to pay off securities maturing during this period, that is the weekly maturities of 3 and 6 months bills; the one year bill maturing on June 3rd; the coupon securities maturing on May 15, of which some are held by the Federal Reserve Banks, which we assume will roll over their investment, and of which $3.8 billion are held by the public; the regular quarter-end security maturing on June 30 of $2 billion; and finally the cash management and tax anticipation bills maturing in mid-June in the amount of $2.75 billion.

Of these maturities the market would confidently expect that we would roll-over all the maturities except that $2.75 billion of cash management and tax anticipation bills, so that I tend to look at our market financing decision to be how to raise in new borrowing the $6-3/4 billion of net increase in indebtedness plus the $2.75 billion, for a total of $9-1/2 billion.

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In raising that $9-1/2 billion we have to make difficult decisions on which maturities to offer. One factor we have to take into account is that we have been concentrating our borrowing very heavily in the short maturities with the result that the average length of our marketable debt has been declining, from 5 years, 9 months at the end of 1964 to 2 years, 9 mos. at the end of 1974, to 2 years, 8 mos. yesterday, as indicated in one of the charts in the background material we have distributed to you. As a net result of the passage of time, the maturity of some securities, and new issues by us, the Treasury now has outstanding $300 million fewer securities maturing in over 7 years than it did at the beginning of the year. As of yesterday, of the $205 billion of marketable Treasury securities in the hands of the public, 69% matures in 2 years or less, 23% matures in 2 to 7 years, and only 8% matures in more than 7 years.

The financing plan we have come up with does not, however, make much change in the average length of the debt. Under that plan the average length at the end of June is expected to be 2 years and 9 months, and that average length would be reduced further thereafter until our next longer term issue.

Our financing plan consists of three parts: several securities which we are formally announcing today for sale next week in the separate announcement you have received; three coupon issues which we are tentatively projecting for sale late this month and next month but have not finally decided upon though we are announcing our projections at this time for the information of prospective purchasers, and thirdly some expected increases in our bill issues which will be decided and announced later in the light of our actual cash position.

The securities being offered today are:

$2.75 billion,	3-1/4 year notes maturing August	15, 1978;	
1.5 billion,	7 year notes maturing May	15, 1982;	and
.750 billion,	30 year bonds maturing May	15, 2005.	

These securities total $5 billion and will raise $1.2 billion in cash. They will be auctioned in maturity order next week on Tuesday, Wednesday, and Thursday by yield auction. The minimum denomination will be $5,000 for the 3-1/4 year note and $1,000 for the longer term securities. The payment for the new securities will be on May 15 except that purchasers will have the option to pay for the 30 year bond on June 2.

In addition to these securities we anticipate three coupon issues to fit into our new 2-year note cycle. The first will be for $2 billion maturing on May 31, 1977, auctioned on May 14, for payment on May 27. I understand that the Home Loan Bank system has announced today the paydown of $1.3 billion of maturing securities on that date. The second security will be a 16 month $1.5 billion note maturing October 31, 1976, to be auctioned on May 22nd, and paid for on June 6. The third will be a roll-over of the $2 billion maturity on

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June 30 to June 30, 1977, probably to be auctioned on June 17.

In addition to these securities sold to the public we would expect some purchases of the same marketable securities will be made by foreign monetary authorities. For planning purposes we assume these purchases will total about $600 million.

To achieve our forecast total financing need of $9-1/2 billion we shall probably have in addition to raise some amount, now forecast at $4.2 billion, through additions to our bills outstanding. We have five weekly bill maturities and one yearly bill maturity prior to mid-June, our traditional cash low point. I intend to maintain flexibility by not announcing individual amounts for the prospective bill sales.

Finally I would like to mention that our current estimate of the required net increase in our indebtedness in the second half of the year is now about $40 billion if the Congress accepts the President's recommendation of a $60 billion budget deficit for the fiscal year 1976. Of course our borrowing requirement will be higher if the budget deficit is increased.

Now, I'd be happy to attempt to answer any questions.

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

FOR IMMEDIATE RELEASE

May 1, 1975
Contact: R.E. Harper
964-5775

PRESIDENT FORD MAKES FIRST-DAY PURCHASE OF BICENTENNIAL-DESIGN SERIES E BOND

President Gerald R. Ford today purchased a Bicentennial-design Series E. Savings Bond -- the first printed -- from Secretary of the Treasury William E. Simon in the White House Oval Office.

Terms and conditions of the redesigned Bonds remain the same; only the "face" has been changed. E Bonds earn six percent interest, compounded semiannually, when held to five-year maturity.

In the new design, the Minute Man -- long a Savings Bonds symbol -- replaces the eagle, and Bicentennial-related vignettes replace the Presidential portraits. The tint is in blue ink, rather than green, and all of the face printing that had been black is changed to blue. The Bicentennial logo is printed in red, immediately to the left of the legend in the lower part of the Bond, while "1776 Bicentennial 1976" appears in red, immediately above the vignette.

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The commemorative vignettes, by denomination, are: $25 -- Independence Hall; $50 -- Liberty Bell; $75 -- Spirit of '76; $100 -- Valley Forge; $200 -- Crossing the Delaware; $500 -- Washington; $1,000 -- Declaration of Independence. The $10,000 denomination is unchanged.

The red, white and blue Bonds are now on sale, nationwide; they will be available through December 1976.

Ceremonies marking the Bicentennial and the 34th anniversary of the Savings Bonds Program are being held across the country, with governors, mayors, county executives buying "first" issues and proclaiming the week of May 5-9 as "Minute-Man" Week.

Thirty-four years ago, President Franklin D. Roosevelt bought the first Series E Bond -- called a Defense Bond -- from then Secretary of the Treasury Henry Morgenthau, Jr.

Since then, tens of millions of Americans have bought and held Savings Bonds, setting dollars aside for new homes, automobiles, college educations, better retirement, the proverbial rainy day. At the same time, they have helped the government finance national programs and projects.

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Today, approximately $65 billion worth is outstanding, and sales have been setting postwar records. Total sales in 1974 came to $6.8 billion; sales for the first quarter of 1975 amounted to $1.9 billion.

Participating in the ceremony were -- Secretary of Agriculture Earl L. Butz, Chairman, Interdepartmental Savings Bonds Committee; H. J. Hintgen, Commissioner of the Public Debt; Mrs. Marjorie Lynch, Deputy Administrator, American Revolution Bicentennial Administration; W. Jarvis Moody, Chairman, American Bankers Association Savings Bonds Committee, and President, American Security and Trust Co., Washington; Clifford C. Sommer, Chairman, Savings Bonds Bicentennial Activities, and Vice President, University of Minnesota Foundation, Minneapolis; Mrs. Francine I. Neff, National Director, U. S. Savings Bonds Division, and Treasurer of the United States, and Jesse L. Adams, Jr., Deputy National Director, U. S. Savings Bonds Division.

-- USSB --

BICENTENNIAL-DESIGN SERIES E SAVINGS BOND

FACT SHEET

* The Bicentennial-design Series E Savings Bond will be on sale through the Bicentennial years.

* Rates, terms and conditions of the Bicentennial-design E Bond are identical to those of the familiar Presidential design; only the physical appearance has been changed.

* Interest rate is six percent, when held to a five-year maturity.

* Design changes, which make the Bond a patriotic red, white and blue, are --

  ° Tint is in blue ink, rather than green, and all of the face printing in black is changed to blue.

  ° The "Minute Man" replaces the eagle as the central figure in the tint design.

  ° The Bicentennial logo is printed in red immediately to the left of the legend in the lower part of the Bond.

  ° The Presidential portraits are replaced by the following commemorative vignettes --

$25	Independence Hall	$200	Crossing the Delaware
$50	Liberty Bell	$500	Washington
$75	Spirit of '76	$1,000	Declaration of Independence
$100	Valley Forge		

  ° The inscription "1776 BICENTENNIAL 1976" is printed in red immediately above the vignette.

* The Presidential-design E Bond will remain on sale until stock is exhausted.

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

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FOR IMMEDIATE RELEASE May 1, 1975

JAMES J. FEATHERSTONE NAMED DEPUTY ASSISTANT SECRETARY FOR LAW ENFORCEMENT

Secretary of the Treasury William E. Simon announced today the appointment of James J. Featherstone to be the Deputy Assistant Secretary for Law Enforcement. Mr. Featherstone, who reports to Assistant Secretary David R. Macdonald, will assume direct supervision of Treasury law enforcement policies and programs. He comes to Treasury from the Department of Justice where he was Deputy Chief of the Organized Crime Section.

Born November 14, 1926, at Wilkes-Barre, Pennsylvania, Mr. Featherstone spent much of his early youth in the New York City area. He was a former member of the U. S. Navy from 1944 to 1946 and received his LL.B. in 1953 from Fordham University School of Law.

After two years with Mendes and Mount, a New York law firm, he joined the Department of Justice in October 1955, serving initially in the Internal Security Division. Later assigned to the Espionage Unit as a Trial Attorney, he was on the trial staff which prosecuted Rudolph Ivanovich Abel.

In 1959 he transferred to the Organized Crime and Racketeering Section of the Criminal Division. His assignment as an Area Coordinator for the Midwest was to develop investigative programs calculated to result in prosecutions of major organized crime figures.

In 1961 he was assigned to Kansas City, Missouri for over two years where he worked with agents from all federal investigative agencies developing cases against organized crime figures and their associates, conducted extensive Grand Jury inquiries and tried cases resulting from the investigations. He returned to Washington in 1963.

(more)

In 1966 he was placed in charge of the Labor Racketeering Unit within the Organized Crime Section and in 1968 he was made Attorney in Charge of the Newark Strike Force. A Strike Force is a field office established to conduct organized crime investigations and prosecutions in the cities with the most acute organized crime problems.

In the latter part of 1969, he became Attorney in Charge of the Chicago Strike Force, where he remained until becoming a Deputy Chief of the Organized Crime and Racketeering Section in June 1970.

Mr. Featherstone resides in Clifton, Virginia, with his wife, Mary, and their four children.

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FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE STEPHEN S. GARDNER
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
HOUSE COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON THE TREASURY,
POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS
THURSDAY, MAY 1, 1975

Mr. Chairman, I am pleased to be here today in support of the FY 1976 Appropriation Request for the National Commission on Productivity and Work Quality. The request is directed toward the $2.5 million contained within the President's 1976 budget for the Commission. Present authorizing legislation for the Commission, P. L. 93-311, expires June 30, 1975. It is intended that the work of the National Commission on Productivity and Work Quality will be carried on under new authorizing legislation which has been introduced in both the Senate and the House -- S.765, S.937, and H.R. 6078 -- providing for a National Center for Productivity for at least a 3-year period. As you know, the Commission has had a 4-year history of uncertain annual authorizations which we hope will be remedied by passage of new legislation.

The Department of the Treasury is vitally interested in the improvement of the U.S. economy. The Secretary of the Treasu--y is Chairman of the Economic Policy Board which oversees the work of the current Productivity Commission and participates directly in its work.

Assistant Secretary of the Treasury Fiedler and I have had the opportunity to testify before the House and Senate respectively in support of the authorizing legislation for a National Center for Productivity and we have been impressed by this Nation's growing acknowledgement that productivity growth and quality of work are essential components to a revitalized economy and that we all must cooperate to achieve it. As evidence of this awareness I would like to submit for your information the joint statement of Secretary of Labor Dunlop, former Chairman of the National Commission on Productivity and Work Quality; Donald Burnham, Vice Chairman; and Bruce Thrasher on the behalf of I. W. Abel, Vice Chairman;

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before the Economic Stabilization Subcommittee of the House Committee on Banking, Currency and Housing, on the proposed Center. Their testimony sets the framework of joint effort and concern by labor, management and government about which the request for $2.5 million is built.

In his testimony before the same House Subcommittee, Assistant Secretary Fiedler reviewed a number of accomplishments of the Commission during the past year and I have submitted with this statement a summary of those efforts. What is evident throughout each of the major projects the Commission has supported is that a concerted joint effort by labor, management, government and others can yield significant results.

The problem of moving perishibles from the West Coast was identified by a committee of over 100 food distribution experts as having resulted in a decade of total dissatisfaction by all concerned. With the leadership of the Commission, everyone involved, from the growers to the Interstate Commerce Commission, worked at removing whatever industry, regulatory and tradition-based barriers they could identify and created a dedicated, unit train that now brings fresh fruits and vegetables across the country in 6 days on schedule instead of 10 to 16 days on an irregular basis, thereby allowing railroads to render a significantly better service which under old operations would have required capital investment in 900 refrigerated box cars.

We have also seen the entire steel industry and its union take enormous strides toward cooperative efforts to institute productivity improvements that will strengthen that industry. The Commission has identified other situations where labor/management groups have undertaken unique programs within the working environment to yield improved job satisfaction and higher productivity. Rather than reiterate the list of accomplishments we have submitted, or rearticulate the details of the program contained in the submission to this committee, I think it would be most helpful if I were to describe one of the Commission's recent projects in some detail. In so doing, I hope to make clear both the potential gains we can look for on an economic basis and demonstrate how the continued effort to identify and resolve opportunities for productivity gains has a cumulative impact among those involved in the process.

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Concerned with productivity in the food industry, the Commission directed its limited resources at food transport and stimulated, as I've already mentioned, the "fresh from the West" train. The momentum of that project, however, not only produced that train, but also has caused the food industry to explore other opportunities in distribution improvement. Moreover, the project stimulated further concentration within the broader context of rail transport problems.

A committee of the Commission, in conjunction with the Council of Economic Advisers, examined some of the problems of the Railroad Industry and surfaced some startling facts: (a) in spite of a nationwide rail car shortage, cars were in motion only 15% of their useful life; (b) carried freight at an average speed of 3.1 miles per hour; (c) in 1973, 42.3% of all railroad freight car miles traveled involved no payload; and (d) 75% of the industry's capital investment was in rolling stock with an industry average return on investment of less than 3%. The Commission's task force felt that a method must be derived to both increase the availability of freight cars for loading and decrease the operating costs associated with moving empty cars.

Through continued dialogue with industry officials, the Federal Railroad Administration (FRA), the Interstate Commerce Commission (ICC), the Association of American Railroads (AAR) and others affected by this problem, the Commission staff devised an experiment to reduce empty mileage and maintain car availability. The effort eventually produced the outline of a clearinghouse concept which was refined in a series of workshops with the FRA, ICC, AAR, industry officials, shippers and, receivers. Three railroads quickly agreed to participate in the rail car clearinghouse experiment. One barrier, an ICC regulation concerning car service orders, was removed one day after the participating railroads petitioned for an exemption. This quick response by the ICC Chairman was to a large measure the direct result of the continuing participation of ICC personnel in the entire project.

On September 15, 1974, less than six months after the effort began, the experiment started. Today, the participating railroads report substantial savings through fewer car miles and lowered fuel consumption, lower switching costs and greater efficiencies in car movement. They are also gaining greater utilization of their freight cars and thereby increasing the effective rate of return on their capital investment.

There are approximately 70 class 1 railroads. It is now estimated that if a majority of these railroads were operating under the Clearinghouse concept, $100 million could be saved annually in operating costs alone. Once again, however, the primary value of this project does not lie in the dollars saved by the participating railroads but with the successful experience of the joint labor, management and government effort to develop for themselves new and more productive means of doing business.

The measures of success for the Commission, as in the past, must be in terms of its ability to cause elements of an industry, economic sector or public service to engage themselves in an effective effort to improve their productivity. I'm sure I don't have to emphasize the need we have of this effort today.

The bulk of the Center's activity in FY 1976 will be directed toward the continuation, expansion or initiation of projects such as the one described above and in the background material submitted for your review.

The $2.5 million requested, is equal to the amount requested in FY 1975 but $500,000 more than the amount appropriated. The $2.5 million will enable the Center to operate with a full staff of 20 permanent positions, meet the growing printing and mailing costs associated with the increasing demand for Commission publications, and undertake both those projects that had to be delayed this past year due to the lowered appropriation and those new projects important to conducting a responsive program within each sector.

In his economic message addressed to the joint session of Congress on October 8, 1974, President Ford spelled out a specific mandate to the National Commission on Productivity and Work Quality. Given the broad nature of the sources of productivity improvement and the need to focus our limited resources, the President said that the Commission "will initially concentrate on problems of productivity in government -- Federal, State and local. Outside of government, it will develop meaningful blueprints for labor/management cooperation at the plant level. It should look particularly at the construction and health service industries." He also

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charged the Commission to continue its work to improve productivity in the food and transtporation industries.

The Commission's FY 1976 program plan submitted to you is in response to that mandate. It now appears that the President in his statement, Congress in their introduction of legislation, and labor, management and government leaders are united in their belief that productivity growth is important for our economic well being and that an institution like the proposed Center will assist us in attaining that growth.

The FY 76 program plan describes both the progress made to date by the Commission in each of its major program areas and more detailed justification for the FY 1976 request of $2.5 million and 20 permanent position. We would be pleased to submit any additional information in support of this request.

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STATEMENT OF

MR. DONALD C. BURNHAM
DIRECTOR - OFFICER OF WESTINGHOUSE ELECTRIC CORPORATION

DR. JOHN T. DUNLOP
SECRETARY OF LABOR

MR. BRUCE THRASHER
ASSISTANT TO THE PRESIDENT,
UNITED STEELWORKERS OF AMERICA

HEARINGS BEFORE THE
HOUSE BANKING, CURRENCY, AND HOUSING COMMITTEE

ECONOMIC STABILIZATION SUBCOMMITTEE

FRIDAY, APRIL 25, 1975

MR. CHAIRMAN, WE ARE PLEASED TO BE ABLE TO TESTIFY IN SUPPORT OF H.R. 6078, A BILL TO ESTABLISH A NATIONAL CENTER ON PRODUCTIVITY. WE ARE APPEARING TOGETHER BECAUSE WE SHARE A DEEP CONVICTION THAT THE PROPOSED CENTER WOULD CONTRIBUTE TO THE STRENGTH OF THE AMERICAN ECONOMY IN A PERIOD OF ECONOMIC UNCERTAINTY AND MOUNTING WORLD PRESSURES. PRODUCTIVITY IMPROVEMENT IS THE FOUNDATION OF OUR ECONOMIC WELFARE AND HIGH STANDARD OF LIVING AND IS, THEREFORE, A MATTER OF

CONCERN FOR ALL OF US - LABOR, BUSINESS AND GOVERNMENT. THIS PROPOSAL FOR THE FORMATION OF A PRODUCTIVITY CENTER IS PUT FORWARD WITH THE PROVISO THAT THE BASIC RESPONSIBILITY FOR PRODUCTIVITY IMPROVEMENT RESTS WITH THOSE WHO ARE RESPONSIBLE FOR DELIVERING GOODS AND SERVICES TO THE AMERICAN PEOPLE - NOT A NEW GOVERNMENT BUREAUCRACY.

TO GIVE SOME PERSPECTIVE TO THE NEED FOR PRODUCTIVITY GROWTH, LET US BRIEFLY REVIEW SOME LONG-TERM TRENDS.

FIRST, WE ARE ENTERING A PERIOD IN WHICH OUR PRODUCTIVE RESOURCES WILL GROW MORE SLOWLY THAN IN THE PAST. AT THE SAME TIME EXTRAORDINARILY LARGE DEMANDS ARE BEING PLACED UPON OUR PRODUCTIVE SYSTEM. WE MUST INVEST IN EXPENSIVE PRIORITIES SUCH AS THE DEVELOPMENT OF NEW ENERGY SOURCES, IMPROVED TRANSPORTATION, EXPANDED INDUSTRIAL CAPACITY, HOUSING, BETTER HEALTH CARE, AND NEW INDUSTRIES WHICH CREATE NEW JOBS. THESE CHALLENGES SHOULD COMPEL US TO EXPAND OUR EFFORTS TO IMPROVE THE EFFECTIVENESS AND EFFICIENCY WITH WHICH WE UTILIZE OUR RESOURCES OF MANPOWER, CAPITAL, ENERGY, AND MATERIALS.

SECOND, OUR ECONOMY IS BECOMING INCREASINGLY SERVICE-ORIENTED. ABOUT TWO-THIRDS OF THE WORKFORCE ARE EMPLOYED IN GOVERNMENT OR SERVICE INDUSTRIES WHICH HAVE, AS FAR AS WE KNOW, RELATIVELY LOW RATES OF PRODUCTIVITY IMPROVEMENT.

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WE NEED TO FIND WAYS OF INCREASING PRODUCTIVITY IN THESE LAGGING LABOR-INTENSIVE SECTORS, IF WE ARE TO MAINTAIN OUR HISTORIC PATTERN OF GROWTH.

THIRD AND FINALLY, WE LIVE IN A HIGHLY COMPETITIVE, INTERDEPENDENT WORLD ECONOMY. AMERICAN INDUSTRY IS BEING MORE SERIOUSLY CHALLENGED EACH YEAR BY FOREIGN COMPETITORS WITH TECHNOLOGY COMPARABLE TO OUR OWN, BUT MUCH LOWER WAGE SCALES AND LIVING STANDARDS. WE MUST MAINTAIN OUR COMPETITIVENESS IF WE ARE TO PROTECT THE JOBS OF AMERICAN WORKERS.

RECENT FIGURES, HOWEVER, SHOW THAT THE U.S. MAY BE IN A DETERIORATING COMPETITIVE POSITION. PRODUCTIVITY GROWTH RATES IN OUR MANUFACTURING INDUSTRIES HAVE LAGGED BEHIND THOSE OF OTHER MAJOR INDUSTRIAL NATIONS. WE ARE SPENDING RELATIVELY LESS OF OUR GNP ON CAPITAL EQUIPMENT THAN OTHER INDUSTRIAL NATIONS, AND OUR RESEARCH AND DEVELOPMENT SPENDING HAS BEEN DECLINING. THIS IS NOT TO SAY THAT OUR POTENTIAL HAS DIMINISHED. WE HAVE THE MOST ADVANCED TECHNOLOGY IN THE WORLD, WE HAVE AN INCREASINGLY BETTER EDUCATED WORKFORCE, AND WE HAVE SKILLED MANAGEMENT THAT IS UNMATCHED. WE HAVE ENORMOUS OPPORTUNITIES TO MAKE OUR COUNTRY STRONGER, MORE PROSPEROUS, AND MORE STABLE.

We believe that the proposed National Center for Productivity would strengthen a national effort to improve the productivity performance of the American economy. We need such an institution within the Federal Government to serve as a focal point for the great variety of activities to promote productivity that go on within and outside the government. Productivity improvement needs to be given greater visibility and support throughout the country.

The concept of a Productivity Center is by no means new. Practically every nation with some industrial capacity, from Iceland to New Zealand has a center for productivity. Many were established after World War II at the request of the United States Government and as a condition of assistance under the Marshall Plan. It is generally agreed that these centers have played a constructive role in the modernization of European and Japanese economies.

The Center, under the proposed legislation, would perform several types of functions, which our experience tells us will be highly useful and constructive.

<u>First</u>, it will serve, within the government, as an <u>advocate</u> for policies and programs which improve productivity. It has a primary responsibility to insure the development of

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POLICIES FOR THE PRESIDENT, THE CONGRESS, AND THE NATION AS A WHOLE WHICH FOSTER PRODUCTIVITY. THERE IS A CLEAR NEED FOR A KNOWLEDGEABLE CENTRAL BODY WHICH WILL DRAW ATTENTION TO THIS ISSUE WHEN GOVERNMENT FORMULATES REGULATORY AND OTHER INDUSTRY RELATED PROGRAMS.

A SECOND GENERAL FUNCTION, IS TO PROVIDE A FORUM IN WHICH REPRESENTATIVES OF LABOR, MANAGEMENT, STATE, LOCAL AND FEDERAL GOVERNMENT CAN EXCHANGE VIEWS ON THE PRODUCTIVITY ISSUES IN WHICH THEY HAVE A COMMON STAKE. THE COMMISSION IS NOW IN THE PROCESS OF DEVELOPING A NATIONAL POLICY STATEMENT THROUGH THIS TYPE OF FORUM. THE DISCUSSION TO DATE HAS FOCUSED ON FIVE PRIMARY ISSUES: TECHNOLOGY, LABOR-MANAGEMENT RELATIONS, CAPITAL INVESTMENT, EDUCATION AND TRAINING, AND GOVERNMENT REGULATION. THE EXCHANGE OF DIFFERENT VIEWPOINTS, IN A PROBLEM-SOLVING ATMOSPHERE, IS BOUND TO INCREASE UNDERSTANDING, LESSEN TENSIONS, AND CONTRIBUTE TO A MORE OPEN SOCIETY.

THE CENTER, WITH THE ASSISTANCE OF THE FEDERAL CONCILIATION AND MEDIATION SERVICE, WILL CARRY FORWARD THE EFFORTS OF THE NCOP&WQ TO STIMULATE THE DEVELOPMENT OF LABOR-MANAGEMENT COMMITTEES AT ALL LEVELS IN THE ECONOMY IN ORDER TO IMPROVE PRODUCTIVITY AND THE QUALITY OF WORKING LIFE. IN THE STEEL

INDUSTRY, EXTREME ANTAGONISM HAS GIVEN WAY TO COOPERATION BETWEEN MANAGEMENT AND LABOR IN ONE GENERATION, TO THE MUTUAL BENEFIT OF BOTH PARTIES. PERHAPS THIS NON-ADVERSARY RELATIONSHIP CAN BE ADOPTED BY OTHERS.

ONE OF THE MOST CHALLENGING FUNCTIONS OF THE CENTER WILL BE TO HELP LABOR AND MANAGEMENT FIND MORE EFFECTIVE WAYS OF TAPPING THE KNOW-HOW AND COOPERATIVE SPIRIT OF WORKERS.

FINALLY, THE CENTER WILL HAVE AN IMPORTANT EDUCATIONAL FUNCTION - TO PROVIDE INFORMATION AND PROMOTE PUBLIC UNDER-STANDING. WIDE DISSEMINATION OF INFORMATION ON SUCCESSFUL INCENTIVES, TECHNICAL INNOVATIONS, OR MEASUREMENT TECHNIQUES WILL ENABLE THOSE ENTERPRISES OR GOVERNMENT AGENCIES OF ONLY AVERAGE EFFICIENCY TO KNOW OF AND ACHIEVE LEVELS OF PERFORMANCE EQUAL TO THE BEST KNOWN.

THERE IS ALSO A NEED TO INCREASE THE AVERAGE CITIZEN'S RECOGNITION OF HIS/HER OWN STAKE IN PRODUCTIVITY IMPROVEMENT. A BETTER INFORMED PUBLIC COULD PROVIDE A BETTER CLIMATE FOR INNOVATION AND PROGRESS.

THE BILL BENEFITS FROM THE EXPERIENCE OF THE NATIONAL COMMISSION ON PRODUCTIVITY AND WORK QUALITY IN SPECIFIC FEATURES OF THE CENTER'S ORGANIZATION.

FIRST, IT PROVIDES FOR A TRIPARTITE COUNCIL, WITH REPRESENTATIVES OF LABOR, BUSINESS, AND FEDERAL, STATE AND

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LOCAL GOVERNMENT OFFICIALS. IT RECOGNIZES THE IMPORTANCE OF SERVICE INDUSTRIES IN SELECTING MEMBERS. THE ESTABLISHMENT OF AN EXECUTIVE COMMITTEE AND SUBCOMMITTEES OF THE COUNCIL IS A DESIRABLE FEATURE WHICH WILL INVOLVE COUNCIL MEMBERS IN GREATER DIRECTION AND CONTROL OF THE CENTER'S ACTIVITIES.

SECOND, THE PROPOSED CENTER WILL BE AUTHORIZED TO ENTER INTO CONTRACTS BUT NOT GRANTS WITH ACADEMIC INSTITUTIONS AND OTHER ORGANIZATIONS. THIS PROVISION WILL SIMPLIFY ADMINISTRATION OF THE PROGRAM AND AVOID EXCESSIVE OVERHEAD.

THIRD, THE CENTER WILL DRAW ON THE RESOURCES OF OTHER FEDERAL AGENCIES, INDUSTRY, LABOR, AND ACADEMIC EXPERTS, ACTING ITSELF AS A CATALYST TO STIMULATE OTHERS TO TAKE APPROPRIATE STEPS TO INCREASE PRODUCTIVITY.

THE FOCUS OF SUCH ACTIONS WILL BE SPECIFIC AREAS WHERE SELECTIVE CHANGES IN PRACTICES INVOLVE INDUSTRY-WIDE OR INTERINDUSTRY ISSUES THAT FALL OUTSIDE THE MANDATES OF EXISTING AGENCIES.

THE COMMISSION, WITH ITS SMALL STAFF, HAS PURSUED THIS MODE OF OPERATION WITH NOTABLE SUCCESS. IN THE CASE OF THE "FRESH FROM THE WEST" UNIT TRAIN, THE COMMISSION'S STAFF BROUGHT TOGETHER, ON A VOLUNTARY BASIS, SHIPPERS, RAILROADS,

AND DISTRIBUTORS TO DISCUSS, IN A PROBLEM-SOLVING ENVIRONMENT, MUTUAL PROBLEMS OF FOOD TRANSPORTATION.

LAST YEAR, THE COMMISSION STAFF PLAYED A SIMILAR ROLE IN INITIATING, WITH ICC APPROVAL, AN EXPERIMENTAL CLEARING-HOUSE TO REDUCE EMPTY RAIL CAR MOVEMENTS ON THREE RAILROADS. SAVINGS FROM SUCH A SYSTEM, IF INTRODUCED NATIONWIDE, COULD AMOUNT TO UPWARDS OF $100 MILLION IN ANNUAL OPERATING COSTS FOR CLASS I RAILROADS.

PRODUCTIVITY IMPROVEMENT IS A QUESTION OF VITAL IMPORTANCE TO THE HEALTH OF OUR ECONOMY. YET THE TOPIC HAS NOT RECEIVED THE ATTENTION, CONTINUITY, AND SUPPORT NEEDED TO ACCOMPLISH THE RESULTS OUR NATION REQUIRES. THIS PHENOMENON HAS BEEN REFLECTED IN THE EXISTENCE OF THE PRODUCTIVITY COMMISSION ITSELF AND WE ARE THEREFORE PLEASED THAT THE BILL BEFORE YOU PROVIDES A THREE-YEAR AUTHORIZATION FOR THE CENTER. THIS WILL AVOID THE UNCER-TAINTIES AND INABILITY TO PLAN THAT HAVE PLAGUED THE COMMISSION FROM ITS INCEPTION.

IN SUMMARY, WE ENDORSE H.R. 6078 AS AN IMPORTANT CONTRIBUTION TO A MORE STABLE AND MORE EFFECTIVE ECONOMY. AT THIS TIME IN OUR HISTORY, IT IS ESSENTIAL THAT THE FEDERAL GOVERNMENT STRENGTHEN ONE OF THE FOUNDATIONS OF OUR HISTORIC SUCCESS. PRODUCTIVITY WILL NOT BE IMPROVED BY GOVERNMENT FIAT OR EXHORTATION, BUT STRONG GOVERNMENT LEADERSHIP IN COOPERATION WITH LABOR AND BUSINESS WILL GREATLY ENHANCE THE POSSIBILITIES FOR SIGNIFICANT AND LASTING PRODUCTIVITY GAINS.

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SUMMARY* OF FY 1975 ACTIVITIES OF THE NATIONAL COMMISSION ON PRODUCTIVITY AND WORK QUALITY

Accomplishment for the National Commission on Productivity and Work Quality is measured by its ability to cause elements of an industry, economic sector or public service to engage themselves in an effective effort to improve their own performance. Given that catalytic role, it is important to realize two things: 1) individual successes are the result of many participants and credit belongs to all; and 2) individual successes represent milestones in a more important continuing effort towards improvement.

During FY 1975 the Commission itself was successfully reorganized to allow for the effective participation of its membership in its purpose. An executive committee and functional area work groups of Commission members have worked both on directing the efforts of the staff and initiating activities on their own. The work of the Commission toward improving productivity is divided into four different categories:

1. Quality of Work - labor/management committees and behavioral science applications to the work place;
2. Public Sector - including Federal, State and local governments;
3. Private Sector - food distribution, health care, construction and transportation industries; and
4. Education.

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*Note - A more detailed description indicating the background and context in which projects were selected may be found in Part II of the Commission's 4th Annual Report.

QUALITY OF WORK

In response to 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 printed and material is now being edited that will result in case studies of 8-10 public sector committees.

On the plant/community level the NCOP and WQ has held five conferences in Illinois, Wisconsin and New York (with FMCS), with plant-level technical assistance follow-up by State Institutes of Labor Relations. At least a half-dozen sites will be setting up committees aided by the knowledge these conferences provided.

Additionally, the results of these meetings are being 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 behavioral science field the Commission is evaluating the impact of two types of increasingly popular programs on productivity for use by managers and labor leaders.

- A participatory incentive plan in a large corporation (DeSoto Paint Corporation).

- Flexible working hours in a service industry (First National Bank of Boston).

Work (in cooperation with DOL) is being done to produce guides for the appropriate application of behavioral 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).

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PUBLIC SECTOR

In the public sector the NCOP and WQ has supported and encouraged the efforts of the OMB, CSC, and 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 was 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 20 cities into productivity improvement programs with development of follow-up guidance during the initial months of effort.

- A series of five Productivity Workshops were held for state and local officials to facilitate the transfer of improved methods between jursidictions.

- 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.

The successful Solid Waste and Police productivity projects are being followed by a similar effort in government inspections with draft guides for local managers expected by the end of June. Also, in the Police sector, a major conference on productivity improvement techniques was recently held (with the Police Foundation) for 200 police chiefs and mayors from across the country.

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. and the University of Southern California; and

- Stimulating the industry toward development of orderly manpower adjustment programs.

In health care the following projects have been undertaken to contribute to increased productivity:

- Over 100 practitioners identified opportunities to increase productivity throughout the industry;

- 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;

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- Removal of IRS barriers to hospital employee incentive programs; and

- 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; and

- 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 central issue in the fiscal viability of the railroad industry as well as in the capacity to provide the increased service required by the American economy.

Accordingly, work on the interchangeability of freight cars has resulted in a "clearinghouse" experiment designed to eliminate excessive movement of empty cars. With three cooperating railroads, this experiment shows substantial direct operating savings, reduced capital investment and significantly better service to shippers.

To encourage efficient capital investment practices, 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 the 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. The staff is working with the railroads and additional industries to increase the application of this method of train operation.

EDUCATION

To continue its efforts in technical education, the Commission maintains a series of publications of value to those working on productivity programs. These include such studies as:

- "The Role of Productivity in Controlling Inflation."
- Productivity centers 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."

Altogether, the Commission has completed 18 publications which have been distributed to key managers, government officials and others throughout the country. An additional 12 publications are in various stages of completion.

The Commission also works actively with other Federal agencies on the design and implementation of research agendas.

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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 200 million contacts with the public. Materials have been requested and used by over:

2,500	Radio Stations
1,000	TV Stations
1,000	Newspapers
600	Magazines
100,000	Trains and Buses
3,500	Billboards

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I'm delighted to be here today. I'm a native New Mexican, but I have many, many ties to Oklahoma, and I come to your state as often as I can find a decent excuse.

I am related by blood to the Hendersons and Dunns of the Cushing, Stillwater, and Yale area. "Rose of the Cimarron" was my great aunt, who believed in women's rights, and some of women's wrongs as well, according to history. Today, I'm proud to be kissing kin to dozens and dozens of Oklahomans, including my own mother who is staying with relatives in Yale.

I am also related, by a 27-year marriage, to Ed Neff, who lived in Oklahoma City as a teenager, graduated from Classen High School, and went to O.U. for two years. After wartime service, my future husband joined his parents in Albuquerque, where he finished his bachelor's degree at the University of New Mexico and I finished his bachelor's days by marrying him on graduation.

So you see I think Oklahoma is <u>more</u> than O.K. -- it's super in the best way in the world.

Remarks by the Honorable Francine I. Neff before the Oklahoma City Chamber of Commerce, Oklahoma City, Oklahoma on May 2, 1975.

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The meaning of "super" is big. And today, I'd like to talk about one of the biggest things in our lives -- our Big Government and its big spending habits, big labor force and Big Daddy approach to business.

The "Big Daddy" approach piles regulation upon regulation and red tape on red tape. This costs the consumer billions of dollars. In the auto industry, for example, federal regulations added $320 to the price of a 1974 car. And to compute another cost, it's estimated that individuals and corporations spend about 130 million manhours a year filling out government forms, excluding tax forms.

As for a big labor force, it is rather thought-provoking that government at all levels -- local, state and federal -- has more personnel working for it than the auto industry, the steel industry, and all other durable goods industries combined.

But to most of us, the prime illustration of big government is probably its enormous spending habits. Our taxes, large as they are, do not take care of all bills. So, let's look in more detail at government's financial commitments.

For most of the nation's history, our annual budget was well under $100 billion. In 1962, we went past that mark; in 1971 we broke the $200 billion mark and this year we reached a record $300 billion a year. In

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the fiscal year beginning this July, we are likely to reach and perhaps exceed a $365 billion budget.

In other words, your government will be spending a billion dollars a day, each and every day of the year, to pay its bills. That's one billion dollars a day -- a sum almost impossible to imagine. If a man were given a thousand dollars to spend every day of every year of every century beginning with the birth of Christ and continuing to this week, he and his heirs in over 19 centuries would not be able to spend one billion dollars. Yet we will be spending that much in one day, every day of this upcoming fiscal year.

Government spending at all levels of government now takes a third of the total GNP. If recent trends continue, it will consume some 60 percent by the year 2,000.

When local, state and federal governments grow so large you give up half of your earnings to pay its bills, then you have surrendered more than money. You have surrendered part of your freedom as well.

And I do not believe that by giving up our freedom, we are enlarging the freedoms of those supported by our taxes. All of us must help less fortunate Americans: the sick, the old, those unable to work. But the present welfare system is full of inequities. It should be overhauled to reward those willing to work and genuinely help those unable to be employed.

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The measure of a socially compassionate person is not how much of the taxpayer's money he is willing to transfer from those who work to those who don't. Most people in positions of public trust are concerned for the welfare of their fellow Americans. The real question is not who cares the most, but how can we combine a prosperous economy and a minimum amount of human hardship without sacrificing our freedoms or seriously harming our total economic system.

I have criticized Big Government, and you may wonder how I reconcile my feelings about this with my position as the United States Treasurer.

Well, one reason I can do this is because my job as Treasurer includes the directorship of the United States Savings Bonds Division. And I like the Savings Bonds Program for at least three reasons.

It is <u>not</u> Big Government.

It <u>is</u> good for America.

And it <u>is</u> good for Americans.

U.S. Savings Bonds are the <u>nongovernmental</u> government program, because 97 percent of people working in the program are unpaid volunteers. Even our advertising program is donated by the National Ad Council. And I feel right at home with volunteers because I was one myself for so many many years. In fact, I was selling War Bonds way back, several wars ago, in my adolescence.

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I have been aware of the personal advantages of Savings Bonds for many years. They are safe, secure, an easy way to save. They pay a competitive six percent interest. And there are tax advantages which can raise the effective interest rate even higher.

Further, U.S. Savings Bonds are good for the country. About 23 percent of the total public debt in private hands is in the form of U.S. Savings Bonds.

This 23 percent is far and away the most stable part of the debt, because E and H Bonds remain outstanding, on the average, for more than six years. This compares to less than 3 years, on the average, for other marketable instruments.

This long-term stability is important for two reasons.

First, when the holding time decreases, any debt becomes more liquid, and this can be inflationary.

And second, the job of refinancing a rapidly maturing national debt is difficult and expensive.

So, Savings Bonds are good for America and good for Americans. Last year we had the highest sales since World War Two. For the first four months of this year, sales are even higher. We Americans know a good thing when we see it, and Savings Bonds are good in many, many ways.

Now, if I may jump back into something _not_ so good,

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let's look more closely at the upcoming Federal budget deficits.

Our national budget has been in the red 14 out of the past 15 years. But this year there will be a quantum leap. Depending on which bills are passed, it is possible, even probable, that our deficit for the coming fiscal year alone could exceed $80 billion. For the first time, the government will borrow money that will not be paid back until the 21st century.

These figures are enormous, but they do not represent the outer limits of what may actually develop. They do not include money for many of the legislative proposals now under considerations in every congressional committee.

We are hopeful that the new Congressional budget system may help to alter this.

As you know, it is Congress that more or less sets federal fiscal policy, in terms of taxes and total spending. Last year, Congress passed an act setting up new committees on the budget in both the House and Senate, along with a Congressional Budget Office to serve the committees. The act also changed the starting date of the federal fiscal year from July to October, beginning in 1976.

Under the old system in Congress, members could vote to spend money without having to vote explicitly for any deficits created by their new bills. Under the new system, the deficits resulting from the bills will at least be

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placed out in the open. Then Congress can either cut back on the spending bills or Congressmen can go on record favoring the higher spending total and the higher deficit it entails. When a campaigning Congressman points to his record, we can see that record in dollars and cents.

I will add the obvious point that the United States Treasury Department must raise money for the government, but Treasury does not choose how that money is spent nor does it spend the money it raises, except for its own allotment. Being a financier is a big enough problem!

Someone facetiously remarked once that the biblical Noah was our first financier. He floated a limited company when all the rest of the world was in liquidation. I'm tempted to add that he floated alone (a loan), but of course we know he took all of those animals with him.

To return to reality, the Treasury Department will probably have to borrow around $41 billion for the first six months of calendar year 1975 alone.

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The Treasury Department is well aware that borrowing very large sums of money may cause strains in the private financial markets. Although financial conditions normally ease during a recession, this time there may be difficulty financing our current large federal deficits for several reasons.

For one, since the current recession came after a considerable period of inflation, private financing demands are heavier than usual. Further, state and local governments have had their tax receipts reduced by the recession, and they will need to borrow substantial sums.

The Treasury and Federally-sponsored agencies will come into the capital markets for more net funds, both in absolute terms and in relation to the size of the economy, then have ever been borrowed in the capital markets in any single year by the public and private sectors combined. And since Federal requirements for money will be met first, this may put the crunch in the private sector.

Governments at all levels -- local, state and Federal -- will borrow an estimated 80 to 85 percent of new funds available this year, leaving less than one dollar out of every five for investment in private enterprise.

Several possibilities may occur. An unhealthy competition between the government and private borrowers might develop for capital funds. Or the Federal Reserve could accommodate these enormous borrowing requirements by

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creating a more rapid growth in money and credit. In our view, this latter step could mean a re-accelerated inflation followed by a new recession.

Because our economy is currently depressed, the capital market might be able to absorb the combined needs of government and the private sector this year, and then face the real crunch next year, when the economy has gathered steam and the private sector is looking for more money. Thus, if runaway Federal spending programs, combined with permanent tax cuts, become a way of life in America -- and the trend has been this way -- then we could be in for a lot of future economic trouble in the form of an unstable economy and accelerated inflation.

Now, to change the subject somewhat, a number of people have asked me, "How strong is the American dollar internationally?" And, since my name is on your dollar, I have a very personal interest in this question.

The Treasury's view is that the only long range way to maintain a strong dollar is to put our own economic house in order. With that caveat, we believe the future dollar prospects are good for several reasons.

First, the U.S. lead in reducing interest rates -- which weakened the dollar last fall -- may be ending. As the recession bottoms out, incentives for interest-sensitive flows could be reversed by a further change in the international interest rate differentials.

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Second, while oil producers are diversifying their enormous investments, the United States' economy will continue to receive a very significant share of these investments.

And finally, our competitive position in world markets remain strong. Bad as our inflation is, it is still better than that of many other countries. Further, oil imports to the United States dropped sharply in March, for the second consecutive month, and we posted a surplus in our balance of trade. Specifically, March exports exceeded imports by $1.38 billion.

So, save your Yankee dollars -- the economy of the South, North, East and West will rise again. And as it does, we hope that inflation will fall.

Some people profess to find inflation a mystery. But there's nothing mysterious about it. In the last ten years:

-- We fought a war in Asia and charged it.

-- We had severe shocks to our economy due to high oil prices, high food prices and worldwide crop failures.

-- And for years we followed some unsound monetary and fiscal policies. That is the fundamental reason.

Our government has spent beyond its resources for at least a decade. And the government that did this was you and me, through our Congressmen and other officials.

We love what our spending programs bought us, but we hate the morning-after bills that now stare us in the face.

There are heartening signs that the rate of inflation is slowing down. Consumer prices are not climbing as fast; the prime lending rate has fallen; funds are coming back to thrift institutions and so on.

Nevertheless, the twin spectres of inflation and recession remain as monsters in our midst. Our big problem today is to balance the need to fight recession against the need to keep inflation under control.

The Administration's tax rebate is one major recession-fighter.

We prefer this to direct government spending for two reasons.

First, tax rebate money going directly to you will put more money, faster, into the nation's economic bloodstream. You and I will spend the money this year. Even the dollars that we bank will eventually get out to the home building and other industries.

And second, tax-rebate spending by individuals will stimulate the private sector of our economy. Since the great majority of all jobs are there, that's where our efforts should be concentrated.

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Now, let's look more specifically at how inflation and recession affect investment and production.

Businesses, like people, were hurt this past year. Outmoded accounting practices and inflation sometimes created the illusion of high business profits, but real after-tax profits have dropped 50 percent since 1965. I have seen figures which indicate that real retained earnings after dividends of nonfinancial corporations amounted to only $2.8 billion in 1973, compared to $18.9 billion in 1966. The figures for 1974 are even worse, and real retained earnings will probably show a deficit this year.

When profits are poor, you have dried up a critical source of capital investment. This in turn affects production. A recent Department of Treasury study shows that U.S. business ranks among the lowest in the industrialized world for investments and real economic growth. The study also notes that low investment has "limited job opportunities in the sense that, had the growth of plant and equipment exceeded that of the labor force, more jobs would have been required to utilize that increased capacity."

The Administration will help business attract new investment capital by proposing tax reform legislation to offer additional incentives for savings and investment.

Another way the Federal government can help would be to bring its budget into balance when the economy <u>is</u>

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prosperous. This will provide additional funds for investment in the private sector.

In the long run, we must shift our national economic policy towards more savings and investment and towards less government spending. We have lived too long upon the momentum of past economic growth. Now, that future we were warned about some years ago has arrived.

Any talk of the future reminds me of one of my own personal concerns. And if what I'm about to say seems obvious, ladies and gentlemen, I apologize, but I've found that it is not obvious to many people. And that is the need for Americans to understand their own economic system.

We are all consumers. It's simplistic to say the consumer is the key to our economic recovery, because he or she must buy more goods. But before Mr. and Mrs. America can go shopping, they must have jobs with enough earning power to buy, thus making the consumer either a worker or a businessman-worker, producing the goods and services customers will buy.

The worker needs a job; the businessman needs other workers; and both need the consumer, who in turn is the worker or businessman, and so forth.

The government provides various cushions for the worker and businessman, and offers a helping hand to the consumer through, for example, the current tax rebates.

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This illustrates, very simply, the interdependencies of the free enterprise system. But I suspect even this outline is not well understood.

Everyone knows part of the story. We all know the consumer wants to keep down prices on goods and services.

We know that workers and labor unions very legitimately desire higher wages, job retention, and more fringe benefits. This viewpoint is sympathetically presented -- often on page one.

But where is the third viewpoint -- that of the businessman? Who gives John Q. Public, and his children, an informed or sympathetic insight into what the businessman thinks or expects, and what his problems are?

You can look a long time before you'll find a friendly, front-page story about the problems, or low profits, of corporations. These problems are complex -- hard to understand -- so we shrug and pass them by.

One result is that most adults, in an opinion poll, thought corporations reaped profits of about 28 percent. In reality, the net return on sales averages 5 percent.

I became aware of this problem about 10 years ago. My son and daughter were teenagers, and I used to talk before teenage groups in different schools. I would ask classes how much profit they thought businessmen made. Mind you, these were bright kids, yours and mine, but

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they thought the businessman's profits ran between 40 to 50 cents on the dollar. They all but called me a liar when I explained the facts.

Economic theories are certainly complex. Baron Rothschild once said he had met only two people in the whole world who understood gold -- and they disagreed.

Nevertheless, there's something wrong with our educational system, or with us as parents, when our children know so little about the economic system which provides them with the highest living standard of any major country in the world. I suggest we would have better citizens, and better public servants, if our children understood the basics of their own economy.

I'm delighted with what Oklahoma has done in this area. Last year your legislature passed an Economic Education Act which requires all state schools to include economics in their curriculum. And I know that many businessmen in Oklahoma City volunteer their time as resource people in the schools, while civic organizations donate money for in-service training courses.

I understand that Liberty National Bank is especially active. They donate thousands of dollars in awards to enterprising teachers of economic education and to young entrepreneurs in Oklahoma so they can demonstrate the feasibility of their own ideas by starting their own businesses. That's super, and I hope the other 49 states follow the lead of your state.

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Now, for our last few minutes together, let's leave economics and look at the everyday world outside our windows -- the world where men and women are born, grow up, work, fall in love, marry, have children and go about the concerns and activities of people everywhere in the world.

For Americans, our world is a pretty special place.

We have our big, beautiful country. Our farmlands, forests, mountains, cities and seacoasts that stretch from Hawaii to New York.

We have 213 million people whose ancestors came from everywhere in the world.

We have the special ideas that produced a new nation 199 years ago, and that guide us today.

And we have free speech; a free press; the freedom to accept new challenges, as I did when I accepted my present job; and our bloodied but not beaten free enterprise system.

Under our free enterprise system, the real purchasing power of the average American family has doubled in the last 25 years.

During the same time, working conditions improved for most Americans. And, in the last 15 years alone, the number of our citizens going to college has doubled.

Further, our political and economic system is enormously resilient. Consider the shocks it underwent this past year.

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Since last May

-- We have had a new president and a vice-president -- by appointive means, which is also new.

-- We have lived through the highest rate of inflation in our peacetime history.

-- We have had the most severe recession in 25 years.

-- And some $100 billion of the world's wealth has been transferred from oil-consuming nations to oil producing nations.

While these changes were occuring, some people renamed our American Ship of State the Titanic, and announced we were all halfway under water and sinking fast.

That wasn't true, and it won't be true. The Ship of State still sails; the flag still flies; the sky hasn't fallen, and most of us even continue to live and love and fight with our own husbands and wives.

Further, our free enterprise system still functions, and the laws of supply and demand still operate. The fact that it functions so well despite the problems is a tribute to its basic strength. Perhaps it is time to start doubting our doubter's more and our system less.

We will always have problems. But that does not alter the fact that we have an incredibly strong nation, both in spirit and in material goods.

It is time now to move beyond the pessimism that

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paralyzes, into action that creates. For a long time we have told each other what's wrong with society. Now it is time to speak to the good in each other.

But we need to do more than speak -- we need to act.

As parents, we need to instruct our children in economics. We must transfer to them our knowledge of the supply and demand system; our belief in the free marketplace, and the legitimacy of profit.

As business people, it is incumbent on us to take our knowledge and expertise into the classrooms, by actually serving as speakers and lecturers, and by seeing that our elected school board members transmit the need for sound economic education to the teachers.

As citizens, we must demand that the news media make some effort to understand our economic system and to report the third side of our free-enterprise story.

As voters, we must make certain that our elected officials -- from D.C. to City Hall -- understand that good economics is good politics.

As Americans, we must build on our strengths once more. Let us look back at our 200 years as a going, growing nation. Then let us look forward with confidence as we go about doing our jobs, raising our families and helping our society.

Thank you.

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

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FOR IMMEDIATE RELEASE

MAY 5, 1975

FORMER TREASURY SECRETARY SHULTZ
RECEIVES ALEXANDER HAMILTON AWARD

Former Treasury Secretary George P. Shultz today received the Alexander Hamilton Award from Treasury Secretary William E. Simon.

Presented for outstanding and unusual leadership in the work of the Treasury, the Hamilton Award, which includes a gold medal, is confered on persons designated by the Secretary only. It is the Department's highest award.

The citation noted that Shultz as Secretary "admirably carried forward the traditions of that office and, indeed, raised its standards of dedication and professional excellence to unsurpassed new heights."

The citation praised his domestic accomplishments and said "Internationally, his remarkable negotiating skills and ability to work closely with leaders of every race helped the nations of the world adopt a system of more flexible exchange rates and to dismantle many of the trade barriers that existed between them."

Shultz received the award on the occasion of the formal unveiling of his oil portrait as the 62nd Secretary of the Treasury. It was painted by Everett Raymond Kinstler whose works may be found in many private and public collections including the New York City Metropolitan Museum of Art. The Shultz portrait will be hung in the Treasury building along with those of other former Secretaries.

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FOR IMMEDIATE RELEASE May 5, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.8 billion of 13-week Treasury bills and for $2.8 billion of 26-week Treasury bills, both series to be issued on May 8, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing August 7, 1975			26-week bills maturing November 6, 1975		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.661	5.297%	5.46%	97.124 a/	5.689%	5.95%
Low	98.641	5.376%	5.54%	97.097	5.742%	6.01%
Average	98.646	5.356%	5.52%	97.106	5.724%	5.99%

a/ Excepting two tenders totaling $800,000

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 93%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 34,315,000	$ 24,315,000	$ 18,155,000	$ 8,155,000
New York	3,558,635,000	2,237,230,000	4,258,790,000	2,482,190,000
Philadelphia	27,450,000	27,140,000	8,365,000	7,950,000
Cleveland	75,940,000	35,840,000	106,670,000	41,320,000
Richmond	29,490,000	23,935,000	46,720,000	25,180,000
Atlanta	38,245,000	36,675,000	59,755,000	17,250,000
Chicago	250,475,000	145,975,000	201,715,000	28,525,000
St. Louis	56,750,000	44,895,000	75,425,000	23,055,000
Minneapolis	25,420,000	25,320,000	14,925,000	5,925,000
Kansas City	49,800,000	38,855,000	23,165,000	17,955,000
Dallas	25,035,000	22,035,000	9,375,000	8,375,000
San Francisco	238,425,000	138,110,000	346,690,000	136,490,000
TOTALS	$4,409,980,000	$2,800,325,000 b/	$5,169,750,000	$2,802,370,000 c/

b/ Includes $376,410,000 noncompetitive tenders from the public.
c/ Includes $176,460,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

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Hello, I'm delighted to be with you today. I like the subjects I've been asked to talk about -- which are women and the economy. That's a nice, wide variety.

Variety is what women are all about. And "all about" is where we are these days.

We are mopping kitchen floors, raising families, living in communes, robbing banks, trying for the executive suite, and in general being as good, bad, smart, silly and cantankerous as men.

Fifty percent of women between 18 and 65 are currently working. We're as well educated as men but, on the average, we earn only three-fifth's of a man's salary. There are many reasons for this and one -- the main reason -- is that many women work only on a part-time basis. For many women, jobs are secondary to their careers as wives and mothers.

Remarks by the Honorable Francine I. Neff, League of Republican Women, Washington, D.C. on May 5, 1975.

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Politics is one area that attracts women. Mrs. Ella Grasso is now Connecticut's governor while Mary Ann Krupsak is the Lieutenant Governor of New York. Five new women entered Congress this year, to join the dozen already there. A good friend of all of ours, Mary Louise Smith, is the first woman chairman of the Republican National Committee. And a few weeks ago, I attended a reception honoring Mrs. Carla Hills, our new Secretary of Housing and Urban Development, and the third woman cabinet officer in history.

In other fields, American women are scoring other gains. Congress outlawed credit discrimination based on sex last year. The bank of America settled a class action suit on behalf of its female employees, which will mean about $10 million in additional income to women. And in education, the number of women students in medical schools is double what it was three years ago.

I've been talking about <u>working</u> women -- and we automatically think of paid jobs. But I'd like to put in a good word for volunteers. They are terribly important to our society. Some 70 million people have volunteer jobs, and they contribute an estimated $50 billion a year to America's "gross national product."

I am a wife, mother and dedicated believer in the value of volunteers. For the first quarter century of my adult life, I volunteered for everything from the PTA

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to the GOP. I was privileged to learn many techniques and skills this way, because a willing volunteer can often work with top people. I personally feel my route to a career was via the way of the volunteer.

Today, I work full-time as the United States Treasurer and as National Director of the Savings Bonds Division. I am heartened to know that 97 percent of the people who help sell bonds are volunteers. I suspect -- I hope -- that some of you are among those workers in our program.

Our National Savings Bonds goal for 1975 is 6.8 billion dollars in bond sales, and at least 2.4 million new or increased savers.

Here in Metro Washington, we had total sales last year of about 155 million dollars. This was more than a quarter million dollars above our 1974 goal. Our goal this year is a little more than 161 million dollars. I'm especially pleased about this Washington goal, because in just the last 8 years, it has gone up more than 250 percent.

I'm happy to tell you that in our United States Savings Bonds program we have leadership from the top. I was privileged to visit with President Gerald Ford several weeks ago. He is a regular Savings Bonds buyer, and he told me that this year he is increasing his payroll deduction.

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I certainly don't intend to tell you <u>all</u> the advantages of Savings Bonds today. You probably already know what they are. Bonds are a safe, convenient, painless way to save, with a very attractive 6 percent interest rate. A banker friend of mine has added up figures which show that over the last 5 years $75 invested monthly in bonds is worth more today than the same amount invested in stocks on the Moody's Industrial Index.

Bonds also have tax advantages which can increase that 6 percent rate substantially.

Finally, Savings Bonds help the nation. They put more of the Federal debt into the hands of long term savers. They remain outstanding, on the average, for six years, while other marketable instruments turn over in three years or less. Almost a quarter of our publicly held national debt is in the form of Savings Bonds.

So, our Bonds are good for America and good for Americans. Sales of series E and H bonds were at a 29-year high in 1974. And, so far this year, sales are even higher. In this period of inflation and recession, the proven performance of these United States Savings Bonds is very appealing.

Let's talk a little more about inflation and recession, and some of the other shocks that have hit our economy this past year.

Since last May --

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-- We have experienced the highest rate of inflation in our peacetime history.

-- Our economy is in the worst slump in years.

-- Oil prices have quadrupled.

-- And $100 million of the world's wealth has been transferred to a small bank of developing nations.

These stories all made the headlines. But another story -- equally as important -- did not. And that is the story of how well our economic system has operated under conditions of extraordinary stress.

Throughout 1974, the prophets of doom announced that our Ship of State was halfway under water and sinking fast.

That isn't true and it won't be true. America is alive and well. The Ship of State sails; the flag still flies and most of us still live and love and fight with our husbands.

Let's look at the record of what the doubters have predicted, and then let's see what actually happened.

-- Prices on foreign oil jumped in 1974, and it was said that the international financial system might collapse, as massive sums of money were transferred.

In fact, the financial institutions responded with considerable skill. OPEC funds were rather widely disbursed. And the oil consuming nations are presently working on new international agreements for future emergencies.

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Further, new oil discoveries outside of the OPEC nations, and new production in the United States and elsewhere will eventually result in lowered prices. As Treasury Secretary William Simon says, it's a question of when, not if.

For another example of how the sky didn't fall, let's look at gold sales. Late last year, Americans were allowed to buy gold for the first time in decades. The predictions were that we were in for a great new gold rush.

This did not occur. When I checked a few weeks ago, gold was selling below the quoted prices of December 30.

For a final example, let's consider the fears of some people that we are heading into another Great Depression.

Of course, we've had a recession, but it did not come close to the conditions of the 1930's. Unemployment figures in 1975 are only about a third of the 1930's figures, and there are such safety nets as Social Security, medicare, unemployment payments, and food stamps.

Treasury Secretary William Simon believes the present economic slide will bottom out during the middle of this year. As he put it the other day, he sees"patches of blue in a gray, wintry sky."

Our free enterprise system still functions, and the laws of supply and demand still work. But, too often

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it seems to me, we tend to doubt our institutions and not our doubters.

Since I am a strong advocate of the free enterprise system, people sometimes ask me, "If this system works so well, why is there such a high rate of inflation and unemployment?"

There are several reasons.

We fought a war in Viet Nam and charged it.

We sustained world-wide crop failures.

We suffered an oil embargo, and oil prices today are high.

But more fundamentally, we have for years abused our economic system. The fact that it still functions so well is a great tribute to its basic strength.

Our growing Federal government puts enormous demands on the economy.

The proliferation of government regulations burdens both business and the consumer. Federal regulations, for example, added $320 to the price of a 1974 car.

And, our national habits of encouraging consumption and federal spending at the cost of savings and investment is a very serious concern. Capital investment in the United States in recent years has been the lowest of any industrial nation in the free world.

Secretary Simon and other government officials are working to turn some of these trends around. They feel, and I agree, that

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-- We must restore greater discipline to our financial affairs.

-- We must lighten the hand of government in many areas.

-- And we must encourage savings, investment and capital formation.

Finally, we must turn away from the doomsayers. Despite our problems, we have an incredibly strong nation, both in spirit and in material goods. Now we need to speak to the good in each other.

But we need to do more than speak -- we need to act.

As parents, we need to instruct our children in economics. We must transfer to them our knowledge of the supply and demand system; our belief in the free marketplace, and the legitimacy of profit.

As business people, it is incumbent on us to take our knowledge and expertise into the classrooms, by actually serving as speakers and lecturers, and by seeing that our elected school board members transmit the need for sound economic education to the teachers.

As citizens, we must demand that the news media make some effort to understand our economic system.

As Republicans we must make certain we do our work well. We must see that the voting public has a choice of candidates on election day. We must convince good people to run for office. We must then support them with

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our money, our volunteer time and efforts. We must conduct vigorous and effective registration campaigns, voter preference polls, get-out-the vote campaigns and ballot security schools. Then after the elections are over, we must make certain our elected officials understand that good economics is good politics.

As Americans, we must build on our strengths once more. Let us look back at our 200 years of history. Then let us look forward with confidence as we go about doing our jobs, raising our families and helping society.

Thank you.

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

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ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE AMERICAN MINING CONGRESS
PITTSBURGH, PENNSYLVANIA, MAY 5, 1975

MR. OVERTON, DISTINGUISHED DELEGATES TO THIS SPECIAL CONFERENCE OF TE AMERICAN MINING CONGRESS, AND LADIES AND GENTLEMEN:

IT IS A GENUINE PLEASURE TO APPEAR BEFORE YOU HERE IN PITTSBURGH TODAY AND TO BRING YOU THE WARMEST GREETINGS OF THE PRESIDENT OF THE UNITED STATES.

DURING THE TWO-AND-ONE-HALF YEARS THAT I HAVE SERVED IN WASHINGTON, I HAVE HAD THE PRIVILEGE OF WORKING CLOSELY WITH LEADERS OF YOUR INDUSTRY ON MANY OCCASIONS. EACH TIME I AM REMINDED OF THE ENORMOUS CONTRIBUTIONS THAT THE COAL INDUSTRY HAS MADE TO OUR NATION'S GROWTH AND OF THE RICH PROMISE THAT IT HOLDS FOR THE FUTURE. THE HUGE COAL RESERVES OF THIS COUNTRY ARE A COMMANDING NATIONAL ASSET NOT ONLY HERE AT HOME BUT IN OUR RELATIONS ABROAD, AND I BELIEVE -- AS DO YOU -- THAT WE

MUST BE WILLING TO DEVELOP THOSE RESERVES TO MEET THE ENERGY NEEDS OF THE FUTURE. AND OVER THESE LAST FEW YEARS, AS I HAVE COME TO KNOW MANY OF YOU PERSONALLY, I MUST SAY THAT I HAVE ALSO FOUND THAT YOUR INDUSTRY IS CAPTAINED BY MEN OF STRENGTH AND VISION -- MEN OF THE ARENA WHO HAVE BATTLED WITH THE HARD REALITIES OF LIFE AND HAVE LEARNED TO SHAPE THOSE REALITIES TO SERVE A HIGHER GOOD. SO I COME BEFORE YOU TODAY FULLY APPRECIATIVE OF THE PLACE THAT YOU AND YOUR INDUSTRY OCCUPY WITHIN OUR NATION.

WHEN I ACCEPTED YOUR KIND INVITATION TO SPEAK HERE, ALLEN OVERTON SUGGESTED THAT SINCE FRANK ZARB WOULD ALSO BE ADDRESSING THIS AUDIENCE, I MIGHT DIRECT MY REMARKS PRIMARILY TOWARD THE PROBLEMS OF THE ECONOMY. I WILL BE HAPPY TO DO SO, RECOGNIZING, OF COURSE, THAT OUR ECONOMIC FORTUNES ARE INEXTRICABLY BOUND TO THE FUTURE DEVELOPMENT OF OUR ENERGY RESOURCES.

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NEARING THE END OF THE RECESSION

A WEEK AGO TODAY I RETURNED FROM AN EXTENDED TRIP AROUND THE WORLD THAT ENABLED ME TO SPEAK WITH LEADERS OF MANY DIFFERENT NATIONS ON ECONOMIC ISSUES. ONE OF THOSE MEETINGS WAS IN PARIS WHERE I CONFERRED WITH THE FINANCE MINISTERS FROM WESTERN EUROPE AND JAPAN -- THE OECD NATIONS. I CAN REPORT TO YOU TODAY THAT THERE WAS WIDESPREAD AGREEMENT AMONG THOSE MINISTERS THAT THE WESTERN WORLD IS NEARING THE END OF THE CURRENT RECESSIONARY CYCLE.

FORTUNATELY, EVERY RECESSION SOWS THE SEEDS OF ITS OWN RECOVERY, AND THIS ONE IS NO EXCEPTION. HERE IN THE UNITED STATES, THERE ARE SOLID GROUNDS FOR BELIEVING THAT THE WORST PART OF THE ECONOMIC SLIDE MAY ALREADY BE BEHIND US:

OF SPECIAL SIGNIFICANCE WAS THE RECORD REDUCTION IN INVENTORY HOLDINGS IN THE FIRST QUARTER OF THE YEAR. FIGURES RELEASED LAST WEEK INDICATED THAT THE INVENTORY

LIQUIDATION IN MARCH WAS EVEN GREATER THAN FIRST ESTIMATED. THE IMPORTANCE OF THIS LIQUIDATION PROCESS IS THAT SALES ARE MOVING AHEAD MORE RAPIDLY THAN PRODUCTION. AS THAT CONTINUES, WE CAN EXPECT AN INCREASE IN PRODUCTION IN ORDER TO MEET DEMAND. AND AS THAT HAPPENS, OF COURSE, WE WILL BE ENTERING UPON THE RECOVERY.

THE INVENTORY LIQUIDATION REFLECTS A TURN AROUND IN RETAIL SALES. EVEN APART FROM THE INFLUENCE OF PRICE REBATES ON AUTO SALES, RETAIL SALES ROSE BY A TOTAL OF 3½ PERCENT IN THE FIRST QUARTER OF THIS YEAR AND APPEAR TO HAVE INCREASED A BIT FURTHER IN APRIL.

WE CAN ALSO DRAW ENCOURAGEMENT FROM THE EMPLOYMENT FIGURES RELEASED ON FRIDAY. WHILE THE RATE OF UNEMPLOYMENT ROSE TO 8.9 PERCENT, THE HIGHEST LEVEL OF THE POST-WAR PERIOD, THE INCREASE WAS A SMALL ONE AND -- MORE IMPORTANTLY -- APRIL ALSO BROUGHT THE FIRST INCREASE IN OVERALL EMPLOYMENT

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IN HALF A YEAR. THERE HAS ALSO BEEN A LEVELING OFF IN THE RATE OF JOB LAYOFFS, WHICH HAS A CRUCIAL IMPACT NOT ONLY ON UNEMPLOYMENT BUT ALSO UPON PUBLIC CONFIDENCE.

THERE ARE SEVERAL OTHER SIGNS WHICH ARE ALSO POINTING IN THE RIGHT DIRECTION:

-- INFLATION HAS COME DOWN FASTER AND FURTHER THAN ANYONE FIRST ESTIMATED, SO THAT BY THE END OF THIS YEAR, THE OVERALL RATE OF INFLATION SHOULD BE IN THE NEIGHBORHOOD OF 6-7 PERCENT.

-- AS MONETARY POLICY HAS BECOME MORE EXPANSIVE AND INFLATION HAS SUBSIDED, SHORT-TERM INTEREST RATES HAVE FALLEN AND FUNDS HAVE BEGUN FLOWING BACK INTO THE THRIFT INSTITUTIONS. THIS SETS THE NECESSARY PRECONDITION FOR AN UPTURN IN HOUSING.

-- IN ADDITION, CONDITIONS IN THE INTERNATIONAL ECONOMY HAVE BEGUN TO STABILIZE.

-- SURVEYS ALSO INDICATE AN UPTURN IN CONSUMER CONFIDENCE, WHICH HAS BEEN AT RECORD LOWS.

-- THERE HAS ALSO BEEN A DEFINITE AIR OF OPTIMISM IN THE STOCK MARKET, WHERE THE DOW JONES HAS RISEN BY MORE THAN A THIRD SINCE ITS LOW POINT IN 1974.

MOREOVER, THE GOVERNMENT IN WASHINGTON IS ALSO TAKING POSITIVE STEPS TO ASSIST THE FORCES OF RECOVERY. AS I MENTIONED, THE FEDERAL RESERVE HAS ALREADY EASED MONETARY CONDITIONS SUBSTANTIALLY, AND BOARD CHAIRMAN ARTHUR BURNS HAS INDICATED THAT THE FED WILL CONTINUE TO SUPPORT THE RECOVERY WHILE AVOIDING EXCESSIVE STIMULATION. AT THE SAME TIME, THE CONGRESS HAS PASSED AND THE PRESIDENT HAS SIGNED THE BIGGEST TAX CUT IN OUR HISTORY. COMBINED WITH A LARGE FEDERAL DEFICIT, THE TAX CUT WILL GIVE A STRONG BOOST TO THE ECONOMY.

I DO NOT MEAN TO ASSERT THAT THE END OF THE RECESSION

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IS AT HAND. DURING COMING MONTHS, MUCH OF THE ECONOMIC NEWS WILL CONTINUE TO BE BLEAK, REGISTERING FURTHER STATISTICAL EXPRESSIONS OF THE RECESSION. I DO SUGGEST, HOWEVER, THAT THE ECONOMY IS NOW PROVIDING MOUNTING EVIDENCE THAT THE RECESSION WILL BOTTOM OUT DURING THE MIDDLE MONTHS OF THE YEAR. BY THE END OF THE YEAR, WE WILL DEFINITELY BE ON THE ROAD TO RECOVERY.

What Lies Beyond Recovery?

THE MOST SERIOUS QUESTION BEFORE US IS NOT WHETHER RECOVERY IS COMING, BUT WHAT LIES JUST BEYOND. CAN WE SUSTAIN A STEADY, UPWARD MOVEMENT OF THE ECONOMY, OR WILL WE BEGIN CLIMBING ONLY TO PLUNGE ONCE AGAIN INTO THE ABYSS? THAT IS THE ISSUE THAT WE MUST FACE UP TO IN OUR ECONOMIC POLICY DECISIONS.

THERE IS NO DOUBT IN MY MIND THAT WE HAVE THE ABILITY TO STEER THE ECONOMY BACK TO THE PATH OF PROGRESS AND PROS-

PERITY. DESPITE THE REPORTS THAT YOU SOMETIMES READ IN THE PRESS, THERE IS NO REAL MYSTERY ABOUT HOW WE GOT INTO THIS MESS NOR SHOULD THERE BE MUCH DISPUTE ABOUT HOW WE GET OUT. MY DEEPEST CONCERN IS WHETHER WE HAVE LEARNED THE LESSONS OF THE PAST AND NOW HAVE THE WISDOM AND THE COURAGE TO TAKE THE PROPER MEDICINE FOR THE FUTURE.

AS LEADERS OF THE COAL INDUSTRY, YOU HAVE GROWN ACCUSTOMED TO THE RIGORS OF THE FREE ENTERPRISE SYSTEM. YOU KNOW WHAT IT'S LIKE TO EXPERIENCE SETBACKS, BUT YOU ALSO HAVE THE BACKBONE AND THE DETERMINATION TO OVERCOME YOUR PROBLEMS. THAT IS WHY I AM SURE YOU CAN BE COUNTED ON IN THE COMING EFFORT TO PUT THE AMERICAN ECONOMY BACK ON SOLID FOOTING. WE CERTAINLY NEED YOUR HELP.

LET'S FACE IT: OUR ECONOMY IS IN TROUBLE TODAY BECAUSE WE HAVE TRIED TO LIVE BEYOND OUR MEANS FOR SO MANY YEARS AND WE HAVE SERIOUSLY ABUSED THE FREE ENTERPRISE SYSTEM THAT HAS

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BEEN THE FOUNDATION OF OUR ECONOMIC ABUNDANCE. MORE AND MORE WE HAVE TURNED TO THE GOVERNMENT TO SOLVE OUR PROBLEMS, WHEN IN OUR HEARTS WE ALWAYS KNEW THAT GENUINE PROGRESS COMES THROUGH THE SWEAT AND DETERMINATION OF FREE MEN AND WOMEN.

NO ONE CAN BE SO EMPTY HEADED AS TO DENOUNCE ALL FORMS OF GOVERNMENTAL ACTIVITY, BUT THE RAPID GROWTH OF GOVERNMENT IN RECENT YEARS HAS EXCEEDED ANYTHING IN OUR HISTORY AND HAS HAD A POWERFUL IMPACT UPON OUR ECONOMIC GROWTH.

IT TOOK 186 YEARS FOR THE FEDERAL BUDGET TO REACH $100 BILLION, A LINE IT CROSSED IN 1962. THEN ONLY NINE MORE YEARS WERE REQUIRED TO REACH $200 BILLION AND ONLY FOUR MORE YEARS TO REACH $300 BILLION -- A RECORD WE ARE SETTING THIS YEAR. AS WE HAVE OPENED THE FLOODGATES ON THE FEDERAL BUDGET, GOVERNMENT SPENDING HAS BECOME A DOMINANT FORCE WITHIN OUR ECONOMY. TOTAL GOVERNMENT SPENDING TODAY ACCOUNTS

FOR ABOUT A THIRD OF OUR GNP -- ALMOST THREE TIMES THE LEVEL OF PRE-DEPRESSION YEARS -- AND IF RECENT TRENDS PREVAIL, GOVERNMENT SPENDING COULD ACCOUNT FOR AS MUCH AS 60% OF OUR GNP BY THE YEAR 2000.

THAT GROWTH HAS FRIGHTENING IMPLICATIONS. WHEN ANY GOVERNMENT TAXES AWAY MORE THAN HALF OF WHAT A PEOPLE PRODUCE, ROBBING THEM OF THEIR ECONOMIC FREEDOMS, CAN THERE BE ANY DOUBT THAT THE LOSS OF THEIR SOCIAL AND PERSONAL FREEDOMS WILL FOLLOW CLOSE BEHIND?

IT HAS NEVER BEEN POLITICALLY POPULAR, OF COURSE, TO INCREASE TAXES, SO THAT INCREASED FEDERAL SPENDING HAS MEANT A STRING OF FEDERAL DEFICITS -- 14 IN THE LAST 15 YEARS. AS A RESULT, THE GOVERNMENT OVER THE PAST DECADE HAS BEEN REQUIRED TO BORROW A QUARTER OF A TRILLION DOLLARS FROM THE PRIVATE CAPITAL MARKETS THAT HAVE ALWAYS BEEN THE CENTERPIECE OF OUR FREE ENTERPRISE SYSTEM. IN THIS CALENDAR YEAR ALONE,

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THE TREASURY DEPARTMENT WILL BE REQUIRED TO BORROW AT LEAST $80 BILLION -- OVER A BILLION AND A HALF DOLLARS A WEEK.

MONETARY POLICY HAS ALSO BEEN A CULPRIT OF OUR ECONOMIC TROUBLES. FROM 1955 TO 1965, THE MONEY SUPPLY GREW AT AN AVERAGE RATE OF 2 1/2 PERCENT A YEAR, AND WE ENJOYED A PERIOD OF REASONABLE PRICE STABILITY. SINCE 1965, HOWEVER, THE RATE OF GROWTH HAS MORE THAN DOUBLED TO 6 PERCENT A YEAR, FAR MORE THAN THE ECONOMY COULD REASONABLY ABSORB. WITH THE MONEY SUPPLY GROWING SO MUCH MORE RAPIDLY THAN THE ECONOMY ITSELF, IT IS NO ACCIDENT THAT INFLATION HAS BECOME A CHRONIC PROBLEM.

A RELATED TREND WHICH HAS HAD A DESTRUCTIVE IMPACT UPON THE ECONOMY HAS BEEN THE ENORMOUS PROLIFERATION OF FEDERAL REGULATIONS IN RECENT YEARS. I KNOW THAT EXCESSIVE GOVERNMENTAL REGULATIONS HAVE BECOME A MAJOR CONCERN IN THE ENERGY INDUSTRY. LET ME ASSURE YOU OF THIS: YOU ARE NOT ALONE. AN INCREASING

NUMBER OF PRODUCERS AS WELL AS CONSUMERS ARE COMPLAINING ABOUT THIS BURDEN. CONSIDER JUST A FEW EXAMPLES OF THE REGULATORY PROCESS IN ACTION:

-- IT IS ALMOST TWICE AS FAR FROM SAN FRANCISCO TO LOS ANGELES THAN FROM NEW YORK TO WASHINGTON, AND YET THE AIR FARE ON THE CALIFORNIA TRIP IS ALMOST A THIRD CHEAPER. WHY? BECAUSE AIRLINES OPERATING INTRASTATE IN CALIFORNIA ARE NOT CONTROLLED BY FEDERAL REGULATORS.

-- THE GOVERNMENT ALSO REQUIRES THE RAILROADS TO MAINTAIN AS MANY AS 50,000 MILES OF TRACK THAT MAY NO LONGER BE NEEDED, CREATING ADDITIONAL FINANCIAL BURDENS ON AN INDUSTRY ALREADY IN PERIL.

-- IN THE FIELD OF ENERGY, THE FEDERAL POWER COMMISSION, DESPITE REPEATED WARNINGS FROM EXPERTS, HAS BEEN REQUIRED FOR MORE THAN TWO DECADES TO KEEP THE WELLHEAD PRICE OF NATURAL GAS AT AN ABNORMALLY LOW LEVEL IN ORDER TO HOLD DOWN

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PRICES FOR CONSUMERS. BUT THESE CONTROLS HAVE REDUCED THE INCENTIVES FOR DEVELOPMENT OF NEW DOMESTIC SUPPLIES, SO THAT TODAY THERE IS MUCH LESS NATURAL GAS THAN WE NEED. GOVERNMENTAL REGULATIONS HAVE, IN EFFECT, CREATED A NATIONAL SHORTAGE.

SURVEYING THE WHOLE RANGE OF REGULATIONS, IT IS APPARENT THAT IN A SUBTLE BUT INSIDIOUS WAY THEY HAVE SPREAD THROUGHOUT OUR SOCIETY SO THAT TODAY THEY ENCUMBER ALMOST EVERY PHASE OF BUSINESS AND INDUSTRIAL LIFE AND COST CONSUMERS UNTOLD BILLIONS OF DOLLARS. IS THERE ANY DOUBT HERE TODAY THAT THE WAY TO SOLVE MANY OF OUR ECONOMIC PROBLEMS IS TO ALLOW THE FREE ENTERPRISE SYSTEM TO FUNCTION FREELY?

LET US BE AWARE, HOWEVER, THAT THE FREE ENTERPRISE SYSTEM IS NOT AS POTENT AS IT ONCE WAS. OVER THE LAST DECADE, AS THE FORCES OF BIG GOVERNMENT HAVE BEEN OVERFED AND OVERNOURISHED, THE FREE ENTERPRISE SYSTEM HAS GRADUALLY BEEN WEAKENED.

THE RECORD OF CAPITAL INVESTMENT IN THE UNITED STATES

IN RECENT YEARS HAS BEEN THE LOWEST OF ANY MAJOR INDUSTRIALIZED NATION IN THE FREE WORLD. FROM 1960 THROUGH 1973, TOTAL FIXED INVESTMENT IN THE U.S. AVERAGED ABOUT 18 PERCENT A YEAR OF OUR REAL NATIONAL OUTPUT, COMPARED TO 35 PERCENT IN JAPAN, 26 PERCENT IN WEST GERMANY, AND 25 PERCENT IN FRANCE. NOT SUPRISINGLY, OUR RECORDS OF PRODUCTIVITY GROWTH AND OVERALL ECONOMIC GROWTH DURING THIS SAME PERIOD WERE ALSO AMONG THE LOWEST OF THE MAJOR INDUSTRIALIZED NATIONS. REAL GROWTH OF THE U.S. ECONOMY DURING THIS PERIOD AVERAGED 4 PERCENT A YEAR, COMPARED TO 11 PERCENT A YEAR IN JAPAN AND JUST UNDER 6 PERCENT A YEAR IN WEST GERMANY AND FRANCE.

I RECENTLY RECEIVED THE RESULTS OF A STUDY BY THE RESPECTED ECONOMIST PIERRE RENFRET WHICH SHOULD CONCERN ALL OF US. THE STUDY REVEALS THAT AS OF MARCH OF THIS YEAR, WHILE THE ECONOMY WAS IN THE DEEPEST SLUMP SINCE WORLD WAR II, WE WERE STILL OPERATING AT APPROXIMATELY 85 PERCENT OF CAPACITY. WHILE HIS FIGURES ARE CONSIDERABLY ABOVE THOSE COLLECTED BY

THE GOVERNMENT, THEY SUGGEST THAT WE HAVE FAR LESS RESERVE CAPACITY THAN IS GENERALLY RECOGNIZED. I KNOW FROM MY OWN EXPERIENCE THAT THE STEEL INDUSTRY TODAY IS OPERATING CLOSE TO CAPACITY. WHAT THIS MEANS IS THAT DURING THE ECONOMIC RECOVERY THAT LIES AHEAD, WE MAY QUICKLY BUMP UP AGANIST THE LIMITS OF PRODUCTIVE CAPACITY, FORCING UP PRICES ONCE AGAIN.

WHY WE HAVE FAILED TO BUILD AND EXPAND OUR INDUSTRIAL BASE? A FUNDAMENTAL REASON, I WOULD ARGUE, IS THAT WE HAVE HAD POLICIES WHICH PROMOTE PERSONAL CONSUMPTION AND FEDERAL SPENDING AT THE EXPENSE OF SAVINGS, INVESTMENT AND CAPITAL FORMATION. TOO MANY OF OUR FINANCIAL RESOURCES HAVE BEEN DIVERTED FROM THEIR MOST PRODUCTIVE USE, THE PRIVATE SECTOR, TO THEIR LEAST PRODUCTIVE USE, THE GOVERNMENT. A RELATED PART OF THE PROBLEM HAS BEEN THE SERIOUS DETERIORATION IN CORPORATE PROFITS SINCE THE MID-1960S. CONTRARY TO POPULAR OPINION, AFTER-TAX PROFITS MEASURED IN REAL TERMS HAVE DROPPED BY 50 PERCENT SINCE 1965. IT IS NOT UNFAIR TO SAY

THAT WE HAVE BEEN AND REMAIN TODAY IN A PROFITS DEPRESSION IN THE UNITED STATES.

THE INTERACTION OF THE VARIOUS TRENDS THAT I HAVE MENTIONED HERE TODAY -- EXCESSIVE FISCAL AND MONETARY POLICIES, OVERZEALOUS REGULATION BY THE GOVERNMENT, AND INADEQUATE CAPITAL FORMATION AND ECONOMIC GROWTH -- HAS HAD A NUMBER OF EFFECTS WITHIN THE ECONOMY, BUT NONE HAS BEEN MORE SIGNIFICANT THAN THE GENERAL INFLATION THAT HAS RESULTED. SINCE THE MID-1960S, WE HAVE BEEN PLAGUED WITH AN INFLATION RATE THAT HAS GRADUALLY CLIMBED FROM ONE PLATEAU TO THE NEXT. IN RECENT YEARS, THAT RATE WAS PUMPED SWIFTLY UPWARDS BY THE QUADRUPLING OF OIL PRICES, THE INCREASE IN FOOD PRICES, AND OTHER CAUSES, BUT AS THOSE SPECIAL FACTORS DISAPPEAR, IT WILL BE APPARENT THAT THE UNDERLYING REASON FOR MODERN INFLATION HAS BEEN OUR MISGUIDED POLICIES.

ECONOMISTS HAVE ALSO BEGUN TO RECOGNIZE THAT MORE THAN

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ANY OTHER FACTOR, INFLATION WAS RESPONSIBLE FOR CAUSING TODAY'S RECESSION. AS PRICES SKYROCKETED AND REAL INCOMES WERE ERODED, CONSUMER CONFIDENCE FELL AND WE EXPERIENCED THE WORST DROP IN CONSUMER SPENDING IN A QUARTER OF A CENTURY. SIMILARLY, AS PRICES ROSE, FUNDS WERE DRAWN OUT OF THE THRIFT INSTITUTIONS, INTEREST RATES WERE DRIVEN UP, AND THE BOTTOM FELL OUT OF THE HOUSING INDUSTRY. WE MUST WAKE UP TO THE FACT THAT INFLATION IS THE SINGLE MOST DESTRUCTIVE FORCE WITHIN OUR ECONOMY.

THE CHIEF DANGER WE FACE TODAY IS THAT WE WILL FAIL TO HEED THE LESSONS OF THE PAST BUT WILL INSTEAD PURSUE THE SAME OLD POLICIES. PRESIDENT FORD IS FIGHTING HARD TO HOLD THE FEDERAL DEFICIT FOR THE COMING FISCAL YEAR TO $60 BILLION. YET IT IS APPARENT THAT A MAJORITY OF THE CONGRESS BELIEVE THAT DEFICIT IS TOO LOW. THEY COULD EASILY PUSH IT UP TO $70-80 BILLION, AND CONCEIVABLY UP TO $100 BILLION. WHAT A SAD COMMENTARY THAT WOULD BE IF 14 YEARS AFTER THE

ENTIRE FEDERAL BUDGET BROKE THE $100 BILLION FIGURE, THE DEFICIT ALONE WERE OVER $100 BILLION.

RUNAWAY FEDERAL DEFICITS -- DEFICITS IN THE NEIGHBORHOOD OF $80 - 100 BILLION -- WOULD CREATE A SERIOUS RISK OF TOUCHING OFF A NEW ROUND OF EVEN MORE SERIOUS INFLATION FOLLOWED BY STILL MORE UNEMPLOYMENT. MOST OFTEN, NEW SPENDING PROGRAMS REQUIRE A YEAR TO 18 MONTHS BEFORE THEY COME ON STREAM. THUS, PROGRAMS ENACTED IN COMING MONTHS WOULD NOT PUMP STIMULUS INTO THE ECONOMY UNTIL WE ARE ALREADY MOVING TOWARD FULL CAPACITY, AND THEY WOULD THEN CONTRIBUTE SIGNIFICANTLY TO INFLATIONARY PRESSURES.

A SECOND DANGER FROM HUGE FEDERAL DEFICITS WOULD ARISE IN OUR PRIVATE CAPITAL MARKETS. I HAVE SAID SEVERAL TIMES BEFORE THE DEFICITS IN THE NEIGHBORHOOD OF $50 - 60 BILLION WOULD BE MANAGEABLE, EVEN THOUGH THEY WOULD CREATE STRAINS, BUT DEFICITS OF A MUCH LARGER MAGNITUDE WOULD

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BE VERY RISKY INDEED.

IN AN ORDINARY RECESSION, LARGE-SCALE FEDERAL BORROWING CAN BE ACCOMODATED IN THE PRIVATE MARKETS BECAUSE PRIVATE DEMANDS FOR FUNDS ARE SLACK. IN THIS RECESSION, HOWEVER, THE HIGH RATE OF INFLATION AS WELL AS THE SKEWED NATURE OF THE CORPORATE DEBT STRUCTURE HAVE HELPED TO KEEP PRIVATE DEMANDS FOR FUNDS HIGHER THAN WE WOULD OTHERWISE EXPECT IN A RECESSION.

MOREOVER, AS THE RECOVERY TAKES HOLD, PRIVATE DEMANDS FOR FUNDS WILL RISE. AT THE SAME TIME, THE TREASURY WILL STILL BE BORROWING LARGE AMOUNTS OF MONEY TO COVER THE DEFICITS. IT IS WELL TO REMEMBER THAT OUR RECESSION IS NEARLY 75% COMPLETED BUT OUR BORROWING TO COVER THE DEFICITS IS ONLY 25% COMPLETED.

THE DANGERS THAT WE FACE HERE ARE OF TWO KINDS. ONE POSSIBILITY IS THAT THE EXCESSIVE FEDERAL DEMANDS ON THE CAPITAL MARKETS AS THE ECONOMY RECOVERS AND PRIVATE DEMANDS

ARE ACCELERATING, WOULD SET IN MOTION A VICIOUS COMPETITION BETWEEN THE GOVERNMENT AND PRIVATE BORROWERS FOR CAPITAL FUNDS. INEVITABLY, MORTGAGE BORROWERS AND MEDIUM TO LOWER-RATED BUSINESS BORROWERS WOULD BE CROWDED OUT OF THE MARKETPLACE. THIS COULD ABORT THE EXPECTED ECONOMIC RECOVERY AT AN EARLY STAGE AND CAUSE UNEMPLOYMENT TO RISE AGAIN.

THE OTHER POSSIBILITY WOULD BE FOR THE FEDERAL RESERVE TO ACCOMMODATE THE ENORMOUS BORROWING REQUIREMENTS OF THE FEDERAL GOVERNMENT, AS WELL AS PRIVATE DEMANDS, BY CREATING A MORE RAPID GROWTH IN MONEY AND CREDIT. THIS MIGHT POSTPONE THE ADVERSE IMPACT ON THE RECOVERY FOR PERHAPS A YEAR OR TWO. BUT THE CONSEQUENCES OF SUCH ACTION WOULD SOON CATCH UP WITH US IN THE FORM OF A REACCELERATED INFLATION FOLLOWED BY A NEW RECESSION AND HIGHER UNEMPLOYMENT.

I AM NOT PREDICTING SUCH DIRE RESULTS, BUT IT IS ABSOLUTELY ESSENTIAL THAT WE BEAR IN MIND THE DANGERS THAT WOULD BE CREATED IF WE TRY TO OUT SPEND OURSELVES OUR OF THIS RECESSION.

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POLICIES FOR THE FURTURE

WHAT, THEN, SHOULD BE OUR POLICIES FOR THE FUTURE?

FIRST AND FOREMOST, WE MUST CONTINUE TO SUPPORT THE FORCES OF ECONOMIC RECOVERY SO THAT WE CAN END THE HARDSHIPS OF UNEMPLOYMENT. IN WARMING UP THE ECONOMY, HOWEVER, WE MUST BE EQUALLY CAREFUL NOT TO OVERHEAT IT. THAT WILL REQUIRE A SLOWER PERIOD OF RECOVERY THAN WE WOULD LIKE, BUT WE ARE ONLY BUYING MORE TROUBLE FOR OURSELVES OVER THE LONG RUN IF WE RESORT TO SHORT-TERM PALLIATIVES.

SECOND, AS WE REGAIN OUR PROSPERITY, WE MUST RESTORE MUCH GREATER DISCIPLINE TO OUR FISCAL AND MONETARY POLICIES. INSTEAD OF AN UNBROKEN STRING OF FEDERAL DEFICITS, WE SHOULD BEGIN TO PURSUE BUDGET SURPLUSES IN GOOD YEARS SO THAT WE CAN FREE UP MORE FUNDS FOR CAPITAL INVESTMENT.

THIRD, WE MUST LIFT THE DEAD HAND OF GOVERNMENTAL REGULATION FROM THE MANY AREAS WHERE IT SMOTHERS ECONOMIC

INCENTIVES AND GROWTH. THIS GOAL IS PARTICULARLY RELEVANT IN THE FIELD OF ENERGY. IF WE ARE TO ACHIEVE GREATER SELF SUFFICIENCY IN ENERGY, AS I BELIEVE WE MUST, THEN WE MUST ACCELERATE THE DEVELOPMENT OF RESOURCES SUCH AS COAL BY STRIKING A REASONABLE BALANCE BETWEEN ENVIRONMENTAL AND ENERGY REQUIREMENTS. THE RESTRAINTS IMPOSED BY THE GOVERNMENT UPON PRODUCTION, SALE AND USE OF OUR ENERGY RESOURCES ARE UNNECESSARILY RESTRICTIVE AND SHOULD BE SWIFTLY REVISED.

<u>FOURTH</u>, WE MUST MAKE A BASIC SHIFT IN OUR DOMESTIC POLICIES SO THAT WE PLACE LESS EMPHASIS UPON CONSUMPTION AND GOVERNMENT SPENDING AND MORE UPON SAVINGS, INVESTMENT AND CAPITAL FORMATION. WHILE ESTIMATES OF FUTURE CAPITAL NEEDS ARE ALWAYS DIFFICULT, A VARIETY OF STUDIES HAVE CONCLUDED THAT OUR INVESTMENT NEEDS DURING THE NEXT DECADE WILL BE ALMOST TRIPLE THE AMOUNT OF RECENT YEARS. INVESTMENTS DEMANDS WILL BE PARTICULARLY ACUTE IN THE FIELD OF ENERGY. GENERAL PROJECTIONS OF ENERGY INDUSTRY REQUIREMENTS OVER THE

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NEXT DECADE RANGE FROM $750 BILLION TO $1 TRILLION. UTILITIES WILL NEED THE GREATEST PORTION OF THESE FUNDS, BUT WE MUST ALSO CHANNEL BILLIONS OF DOLLARS INTO ACCELERATED DEVELOPMENT OF PETROLEUM, NATURAL GAS, COAL AND NON-FOSSIL FUELS. THE POTENTIAL FOR FUTURE DEVELOPMENT OF ENERGY RESOURCES IS GREAT, BUT IT IS CLEAR THAT WE WILL NOT REALIZE THAT POTENTIAL SO LONG AS THE GOVERNMENT IGNORES THE FINANCIAL REALITIES INVOLVED AND INHIBITS THE PROCESS OF CAPITAL FORMATION.

FINALLY, WE MUST BEGIN TO PLACE GREATER RELIANCE UPON THE FREE ENTERPRISE SYSTEM ONCE AGAIN AND LESS UPON GOVERNMENT. THE PRIVATE ENTERPRISE SYSTEM HAS LONG BEEN A CONERSTONE OF OUR FREEDOMS AND HAS PROVIDED THIS NATION WITH THE GREATEST PROSPERITY AND THE HIGHEST STANDARD OF LIVING EVER KNOWN. BUT IN TODAY'S ECONOMIC TURBULENCE, THERE ARE CONTINUING 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 REDISCOVER HOW MUCH CAN BE ACCOMPLISHED BY PRIVATE ENTERPRISE AND BY MEN AND WOMEN WHO ARE FREE TO DETERMINE THEIR OWN DESTINIES.

IN COMING YEARS, IF WE ARE TEMPTED ONCE AGAIN BY THE SIREN SONGS OF BIG GOVERNMENT, 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 SEIGE: 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 UP AND FIGHT FOR THAT CAUSE.

THANK YOU.

# # #

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

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FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE CHARLES A. COOPER,
ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS,
BEFORE THE SUBCOMMITTEE ON
INTERNATIONAL TRADE AND COMMERCE
OF THE COMMITTEE ON INTERNATIONAL RELATIONS,
HOUSE OF REPRESENTATIVES
10:00 a.m., May 5, 1975, 2255 RHOB

Mr. Chairman, I am pleased to appear before this Subcommittee to discuss the proposed Financial Support Fund. This new international financial arrangement represents a key element of our efforts to promote effective international cooperation -- in both energy and general economic policy -- in a period of great uncertainty and change. An effective response to the financial and economic challenges posed by the severe increases in oil prices demands a unity of purpose and common effort among major oil consuming nations. The Support Fund can play a major role in shaping that common effort.

Basic Purposes and Principles of Support Fund

The Support Fund Agreement signed by Secretary Simon on behalf of the United States on April 9 has its origins in proposals put forward independently by the United States and by the Secretary General of the Organization for Economic Cooperation and Development (OECD) late last year. Those proposals were pursued intensively first by a working party of the Deputies of the Group of Ten major industrial nations.

The outlines of the plan were accepted in principle by Ministers of the Group of Ten in Washington in January. Detailed technical and legal drafting was then assigned to a working party of the OECD, an organization whose membership includes nearly all the developed nations of the non-Communist world. The agreement therefore represents a major international cooperative effort. But the basic purpose and substance of the agreement closely parallel original U.S. concepts.

The proposals for a Support Fund arrangement were developed following a period of widespread concern -- which has subsequently proved unwarranted -- that the oil importing world faced nearly certain financial disaster, that the private financial markets were utterly incapable of handling financing of the magnitudes and variety foreseen and that a large new official "re-cycling" mechanism be imposed on the world to intermediate between the oil exporting investors and the oil importing borrowers. Those who held such views suggested various proposals involving more or less open-ended official financing arrangements between lenders and borrowers, displacing private markets and other existing financing channels, and frequently envisaging guarantees or other special incentives to induce the oil exporters to place their funds with the new arrangement. Proposals for a massive, open-ended IMF oil facility -- involving IMF borrowings from the oil producers on the basis of market-related rates of interest, exchange rate

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and default guarantees to lenders, and virtually automatic credit to borrowers -- perhaps best typified these schemes.

Our proposal for a Financial Support Fund was based on a different analysis of the situation and a different assessment of the requirements.

First, we felt it was not desirable to create a major new financial mechanism to deal with oil-related financing without addressing more fundamental problems. Any new arrangement must demand of its participants cooperation in energy policy, as well as cooperation in broader economic and financial policy.

Second, the U.S. viewed the financial problems posed by the increases in oil prices as transitional in nature. Energy conservation and increased energy production in the oil importing world will over time cut into the oil exporters' revenues. Rapidly growing demands in oil exporting countries for foreign goods and technology will over time substantially increase their payments abroad. These transfers will impose the real costs of high oil prices, but they will also serve to make the financial problem temporary. Current projections are that the accumulated investible surplus of the oil exporters as a group will have peaked by the end of this decade, if not before, in the range of \$170-\$250 billion (at 1974 prices). If this expectation is correct, the largest annual imbalances between the oil importing and exporting groups have already occurred and will taper off toward the end of the 1970's. But large imbalances and financing needs will continue for the next several years, and their cumulative effects may mean that the severest tests still lie ahead.

Third, we believe that any official financial mechanism established should not seek to displace the private markets or other existing sources of financing. These arrangements performed well in 1974 in the face of rapidly changing circumstances, and should be permitted and encouraged to continue to perform and adapt.

Fourth, in our view the nature of the financing problems, or potential financing problems, faced by the developed oil importing countries was not the unavailability of financing in the aggregate. The oil exporting countries have no practical alternative to placement of the bulk of their financial surpluses in the capital and money markets of the major oil importing countries. Instead, the danger is that an individual country may not be able to obtain on reasonable terms the external financing it needs to maintain appropriate levels of domestic economic activity, to avoid recourse to restrictions on international trade and capital flows, and to maintain cooperative energy policies.

The major dangers that to many seemed so prominent in the immediate aftermath of the oil price increases have been avoided thus far, and we hope that will continue to be the case. Nonetheless, there is no assurance at present that this

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favorable situation will continue, and that individual countries will not be driven to inappropriate and unfair policies by the unavailability, actual or prospective, of needed external capital. This possibility may increase as the imbalances, and countries' use of international financing arrangements, accumulate. Once begun, recourse to such policies could quickly spread, triggering a destructive and self-defeating spiral of restrictions on world trade and payments and moves toward excessive curtailment of economic activity. Our ability to achieve effective cooperation on the real problems of energy, growth, inflation and economic development would be gravely jeopardized. The risk of such a trend is shared by all countries. It is manageable, but it must be managed.

This basic analysis, which has gained widespread acceptance, has determined several fundamental principles of the Support Fund's operations.

-- The Support Fund is designed to meet a common danger, and all risk associated with its operations will be shared fully and equitably, on a predetermined basis, among all participants. Risk will not fall -- as it might in the absence of the Fund -- on the one or two countries that might be in the strongest position when an emergency arises elsewhere in the system.

-- Commitment to cooperation in energy and general economic policy is a basic requirement of participation in the Support Fund. In the event the Fund has to be used, specific policy conditions will be attached to its loans. The need for a financial mechanism complementary to cooperation in energy and economic policy made it desirable that the arrangement be established within the general framework of the OECD, which provides the central forum for such cooperation among developed countries.

-- The Support Fund is a temporary device. Its authority to provide financing will lapse two years after it comes into existence, and no new institution or staff will be created. The Support Fund will be headquartered at the OECD in Paris; its policies and operations will be guided by financial officials from participating capitals, meeting as necessary to conduct the Fund's business; and needed staff work will be carried out by the OECD staff under agreed compensation arrangements. At the end of two years, of course, circumstances may show that we have been too optimistic and that the life of the Fund should be extended. But that does not appear likely at this stage.

-- The Support Fund is an insurance mechanism, a "safety net" to supplement other sources of financing, private and official, only in the event those other sources prove inadequate to meet world financing needs. To be eligible to request a loan from the Support Fund, a country must demonstrate not only that it is encountering serious external financial difficulties but also that it has made the fullest appropriate use of other sources of financing available to it. Loans will be based on market terms. The existence of the Fund should serve to strengthen the operations of the private markets and make recourse to the Fund's resources unlikely.

These principles assure that the new arrangement will serve as a mutual insurance fund in support of mutual objectives, with risk spread equitably and with any participant entitled to borrow from the Fund if its circumstances warrant. It will not be a regularly-used financing channel or be viewed as a foreign aid device. There is no scope in the Support Fund for the provision of financing without appropriate policy conditions, or for concessional assistance. If the Fund is used, participants will make financing available to it on market terms, and the cost of financing to borrowers will be greater than the cost of financing to the Fund. The aim is to assure access to financing, not to provide financing on generous terms.

In essence, the Support Fund is designed to provide confidence:

-- Confidence to the private markets in the strength and integrity of the system as a whole; and

-- Confidence to participants in their ability to handle their own problems -- to deal with their energy-related financing needs without dependence on the oil exporting countries.

This self-confidence is essential to the close cooperation in energy and other policies that is needed in the period ahead.

The practical facts of the situation are that the major oil importing countries can handle their own financing needs without relying on the agreement or specific investment policies of the oil importing countries. The close relationship of the Fund to energy policy and the need to maintain confidence on the part of the oil importing countries, individually and as a group, indicate that they should handle their mutual problems on their own.

Main Operating Provisions of Support Fund

Copies of the Support Fund Agreement have been made available to the Subcommittee. Having outlined the basic purposes and principles of the Support Fund, let me now sketch its main operating provisions very briefly.

1. The Support Fund will be open to all OECD member countries prepared to commit themselves to cooperation in energy and general economic policy. In fact, all OECD members except Turkey have already signed the agreement, and Turkey intends to sign shortly.

2. Like any insurance policy, the resources of the Support Fund must be seen to be adequate to meet potential needs, and seen to be available promptly if needed. Total country quotas in the Support Fund will amount to about

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$25 billion. The U. S. quota will amount to about $7 billion, or 27.8 percent of the total.

3. No money is to be paid in to the Support Fund unless and until the need arises. Quotas will simply be available on a standby or "call" basis in case of need.

4. Countries' quotas will determine (a) the distribution of default risk; (b) voting power; (c) obligations to provide financing; (d) rights to borrow; and (e) maximum financial obligations to the Fund.

5. The main financial decisions -- decisions on loans and calls to provide financing -- will require a 2/3 weighted majority vote plus a simple unweighted majority of the number of countries voting. Decisions on loans that raise a borrower's debt to the Fund above the amount of that country's quota, but less than twice its quota, will require a 90 percent weighted vote; and loans that cause a borrower's debt to the Fund to exceed twice its quota will require unanimous consent. In practice, therefore, the U.S. and any other single major participant could together exercise an effective veto on all operations of the Fund, and the U.S. alone will have veto power over any loans that raise a borrower's outstanding debt to the Fund above its quota.

6. All decisions will be taken by a Governing Committee composed of one senior financial official and one alternate from each participating government. An Advisory Board of

experts nominated by members and designated by the Governing Committee will prepare the work of the Committee. No secretariat or permanent institutional structure will be created. The Fund will rely on the OECD Secretariat for necessary staff work.

7. Financing of Support Fund operations will be flexible. The Governing Board can decide to finance a loan by (a) "individual commitments," involving either a direct loan to the Fund or a borrowing by the Fund on the strength of individual countries' guarantees; or (b) borrowings by the Fund on the strength of the collective guarantee of all participants. Resources will be made available to the Fund on market-related terms.

8. In principle, all participants except the borrower will share in the provision of each financing operation according to quota shares. However, there will be some scope for countries to be excused from the obligations to provide financing to the Fund under "individual commitments" and also to "mobilize," or obtain early repayment of, a loan already made to the Fund. In either case, the country would itself have to be in serious balance-of-payments difficulty and obtain the approval of the Governing Committee by a 2/3 majority vote. These clauses relate strictly to the provision of financing. They do not excuse a participant from assuming its share of the default risk on any loan made by the Fund, a risk which in all cases will be shared in proportion to quotas.

9. Loan recipients will have to be facing serious balance-of-payments difficulties and making fullest appropriate use of alternative sources of financing available on reasonable terms. They will also have to follow policies consistent with the Support Fund's objectives, including cooperative energy policies, and will have to accept specific economic policy conditions established by the Governing Committee.

10. Loans may be "phased," with each installment contingent on the borrower's performance with respect to the agreed conditions. Loans may be made for up to seven years and will bear interest adequate to cover the cost of resources to the Fund.

U. S. Participation in Support Fund

Signature of the agreement establishing the Support Fund did not constitute an obligation of the U.S. to participate or provide financing to the Support Fund. The agreement expressly provides that it will enter into force for a signatory only after that country has obtained all necessary legislation or other authority constitutionally required or otherwise necessary for its participation. Most prospective participants will need domestic legislation, and all understand clearly that approval of the Congress will be needed before the United States can participate.

Preparation of the draft legislation to enable the U.S. to participate is near completion, and I hope that it can be transmitted to Congress in the very near future.

<u>Conclusion</u>

Mr. Chairman, the U.S. interest in preservation of a cooperative and smoothly operating world economy is unmistakable. That interest, reflected in the extensive framework of international cooperative arrangements developed since World War II, has been underscored with a vengeance by the events of the past two years or so. The proposed Support Fund is a basic element of our efforts to develop, together with other oil importing nations, a cooperative response to the energy situation and to maintain a strong and open world economic order.

The Support Fund is based on principles of mutual support and equitable sharing of common risks. It will promote maximum reliance on the existing financial arrangements that have served us well to date, while providing a valuable multilateral insurance facility should those existing arrangements prove inadequate. Should the Support Fund not have to be used, that insurance will have been costless. If it must be brought into play, the benefits to U.S. interests will have been well worth the effort. The legislation that will come to the Congress shortly will embody a central element of U.S. foreign economic policy, and I hope it will receive your strong support.

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federal financing bank NEWS
WASHINGTON, D.C. 20220
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FOR IMMEDIATE RELEASE

Contact: Jack Plum
964-2615
May 6, 1975

SUMMARY OF LENDING ACTIVITY

April 4 - May 5, 1975

Federal Financing Bank lending activity for the period April 4 through May 5, 1975 was announced as follows by Roland H. Cook, Secretary:

On April 7, Amtrak, the National Railroad Passenger Corporation made a $20 million drawing at an interest rate of 6.432% against its $100 million line of credit. The line of credit matured on April 11, 1975, and the outstanding advances totaling $75.0 million were rolled over for 91 days at an interest rate of 6.113%. The new maturity date is July 11, 1975.

On April 9, the Bank advanced $539,207 to the Doniphan Telephone Company at an interest rate of 8.59%, payable on a quarterly basis. The loan is guaranteed by the Rural Electrification Administration and matures December 31, 2009.

On April 10, the General Services Administration made a $48 million drawing against a $107 million commitment signed on December 13, 1974. The interest rate is 8.70% and the maturity is November 15, 2004.

On April 14, the Student Loan Marketing Association (Sallie Mae) borrowed $10 million from the FFB at 7.15% interest. The maturity date is April 15, 1976.

On April 16, the Bank advanced $8.3 million at a 7.65% interest rate to the Government of Greece under a $48 million, 10-year commitment signed Februray 28, 1975. On April 30, the Bank made another advance of $4.2 million to the Government of Greece at 8.55% interest. The loan is guaranteed by the Department of Defense.

(Over)

On April 16, the Bank advanced $750,000 to the South Mississippi Electric Power Association at an interest rate of 7.61%, payable on a quarterly basis. The loan is guaranteed by the Rural Electrification Administration and matures April 18, 1977.

On April 23, the Bank purchased $4.4 million of Small Business Investment Company 10-year debentures at an interest rate of 8.70%.

On April 30, the Bank loaned $4.5 million to borrowers guaranteed by the Rural Electrification Administration; $3.0 million to Oglethorpe Electric Membership Corporation at 7.92% quarterly interest, and maturing May 5, 1977, and $1.5 million to the Quincy Telephone Company at 8.80% quarterly interest and maturing December 31, 2009.

On April 30, the Tennessee Valley Authority borrowed $70 million at 5.99% interest. This loan matures July 31, 1975.

On April 30, the Bank purchased $500 million of 5-year Certificates of Beneficial Ownership from the Farmers Home Administration at an interest rate of 8.68% on an annual basis.

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

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FOR IMMEDIATE RELEASE May 6, 1975

MONETARY REFORM COMMITTEE MEETS, SHULTZ NAMED NEWEST MEMBER

The Advisory Committee on Reform of the International Monetary System, meeting at the Treasury Department today under the chairmanship of former Secretary of the Treasury Henry H. Fowler, reviewed current issues in international monetary negotiations, including the agreement by member countries of the Organization for Economic Cooperation and Development (OECD) to establish, subject to legislative approval, a $25 billion Financial Support Fund.

The Committee, which advises the Secretary of the Treasury, also considered proposed increases in quotas in the International Monetary Fund (IMF), a series of possible amendments to the IMF Articles of Agreement, and techniques for meeting the balance-of-payments financing needs of developing countries.

At the meeting, Secretary William E. Simon announced the appointment of former Treasury Secretary George P. Shultz to the Committee. Mr. Shultz, currently Executive Vice President of the Bechtel Corporation, established the Committee in August 1973, when he was Secretary of the Treasury.

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Besides Mr. Shultz, the Committee includes four other former Secretaries of the Treasury:

Henry H. Fowler, Advisory Committee Chairman and Partner, Goldman, Sachs and Company

John B. Connally of Vinson, Elkins, Searles and Connally

C. Douglas Dillon, Chairman, Dillon Read and Company

David M. Kennedy

Other members of the Committee are:

William Blackie, Senior Partner, Lehman Brothers

Alden W. Clausen, President, Bank of America

Gaylord Freeman, Chairman, First National Bank of Chicago

Gabriel Hauge, Chairman, Manufacturers Hanover Trust Company

Reginald H. Jones, Chairman, General Electric Company

William McChesney Martin, former Federal Reserve Board Chairman and presently Counselor to the Board of the Riggs National Bank

Elmore C. Patterson, Chairman, Morgan Guaranty Trust Company

Howard C. Petersen, Chairman, Fidelity Bank of Philadelphia

David Rockefeller, Chairman, Chase Manhattan Bank

Robert V. Roosa, Partner, Brown Brothers Harriman and Co.

Walter B. Wriston, Chairman, First National City Bank of New York

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It's a pleasure to be here today in the great state of Texas. I realize that you originally had hoped that Deputy Secretary Stephen Gardner would be here today. He had hoped to be here also; however, Secretary Simon had need for him to go abroad. Therefore, it's your misfortune, but my good fortune to be here with you today.

I'm truly delighted to be back in the Southwest. My only daughter and new son-in-law live in Houston, and my lifelong home has been New Mexico. Little did I dream a year ago that in May of 1975 I would leave my beloved Southwest to become Treasurer of the United States. In fact, I can hardly believe the whole past year.

When I first went to Washington as the United States Treasurer last summer, I had only a vague idea of what my days would be like. After 26 years as a

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Remarks by the Honorable Francine I. Neff, Top Management TSIA Meeting in Austin, Texas on May 6, 1975.

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housewife, my real forte was mopping the kitchen floors -- which was, in fact, what I was doing when the call came asking me to fly East and be interviewed for the position.

After several interviews, and some soul-searching on my part, I was offered, and accepted, the position as our 35th Treasurer. And so, on June 21, 1974, I took my oath of office.

In the eleven months since then, I've found that my duties fall into four main categories.

My most glamorous job is reviewing and endorsing our currency. I still find it hard to believe it is _my_ name on our dollar bills, and I still get a thrill out of pulling "Francine I. Neff" out of my pocket when I buy something -- which, according to my husband, is much too often.

My second job is to represent the Secretary of the Treasury and the Under Secretary for Monetary Affairs as a spokesman in communicating and coordinating Departmental policies.

My third job is to chair the Treasury Department's bicentennial programs. I find it exciting to tell the Treasury story -- we're the second oldest agency -- and we're planning a number of projects, the most exciting of which includes transforming the second floor of Main Treasury into a museum for the Bicentennial.

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My fourth job is National Director of the United States Savings Bonds Division. And I'd like to brag just a little about our Savings Bonds people and say that this year we've had the highest sales for the first four months of any year since 1945.

So my work at Treasury is financial, bicentennial, buy bonds, and by gosh speak out!

I <u>do</u> speak to many groups about our "Take Stock in America" Savings Bonds program.

But I also remind people to take stock <u>of</u> America -- to look around our country and see what's really happening.

A lot of people don't like what they see today. And they say so -- loud and long.

But there is far more to America than rising unemployment and falling Dow-Jones averages. Let's look out our windows, and into our minds, for a few basics.

We have the American land -- your Texas hills and high plains and cities, and my New Mexico mountains and mesas and all of the other places Americans call home.

We have the ideas and attitudes that shaped us 200 years ago and that shape us today.

We have the many freedoms we take for granted.

There is the freedom to accept new challenges -- as I did when I became the United States Treasurer and accepted the challenge of working full time for the

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country I love.

There are the freedoms we all applaud, such as free speech and a free press.

And then there are the freedoms that don't get their fair share of cheers. I'm thinking of our free enterprise system, which has brought us the greatest mass prosperity in history.

Under our free enterprise economic system, the medium income of American families has doubled in the last 25 years -- even taking inflation into account.

In those same 25 years, the working conditions for most people have improved dramatically. At the same time, new homes, roads, and all of the other public facilities for 35 million people have been constructed -- a tremendous job.

Furthermore, economic and social conditions have been such that, in the last 15 years alone, we have more than doubled the number of young and older Americans going to college -- the greatest example of upward mobility in a nation in history.

And -- returning to the economy and energy, we are still the most nearly independent of the world's major nations, and our automobile gas tanks are still full -- for a price.

So, despite our economic problems, we are not a down-and-out, 97-pound weakling of a nation. We are not

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in another Great Depression of the 1930's, when one out of every four heads of households was out of work. And for those who are unemployed today, we have a comprehensive program of benefits -- social security, medicare, food stamps and many others -- that never existed in my, or perhaps your childhood, when my own family tried to eke out a living on our hardscrabble New Mexico pinto bean farm.

Today, no other country has our manpower, our brainpower, our technology. And despite all cynicism, the word "America" is recognized around the world as a very special word standing for a country unlike any other on earth. I am 100 percent with my boss, Treasury Secretary William Simon, when he says that "those who take a perverse delight in proclaiming the end of the American dream are dead wrong."

After all of this, some people may accuse me of loving my country -- and they're right! I grew up in the small town of Mountainair, New Mexico -- on a good day the census taker could find 1200 people -- and I was raised on a diet of patriotism and pinto beans. The beans were sometimes scarce, but the patriotism was always there. I was taught to love your family, your community and your country, and that whatever you did in life -- you did your best.

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As a teenager in World War Two, I sold war bonds at the Mountainair Post Office on Saturday mornings and rolled Red Cross bandages in the afternoon. I thought then that patriotism was a willingness to die for your country.

Today, I still think that's one way to define patriotism. But I also think loving your country can be a willingness to live for it -- to say "yes" to America in sickness and in health, till death us do part -- and to accept the resulting obligations.

What are these obligations towards society?

Well, my office at the Treasury Department in Washington is next door to the White House. I often see the protesters who march and picket around the President's home. They support many diverse and sometimes obscure causes.

The opportunity to demonstrate this way is a basic right of all of us. But I wonder ... who speaks -- who marches -- for society as a whole? Who supports or defends our society -- as a society -- when it is attacked, as it seems to be almost daily?

Angry young men and women may think that our society is made of granite. But you and I know that any modern civilization is enormously intricate. It holds together because thousands of spoken and unspoken acts and beliefs and forms of cooperation are repeated

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daily. Even strong societies are vulnerable to their own citizens. And no society -- no social contract of any kind -- can hold together forever if the forces that beat upon it are too strong for too long.

The ultimate fate of any nation is determined by the willingness of its citizens to voluntarily give that society some part of their time, trust and money, and to agree that certain norms of behavoir will be followed by the great majority of people.

United States Savings Bonds volunteers understand this very well. You know, when we talk about America's wealth at the Treasury Department and elsewhere, we generally mean money -- dollars and gross national product. And, despite our problems, we probably lead the world in this.

But there's another kind of wealth we also lead the world in -- and I refer to our American spirit of volunteerism.

Volunteerism is men and women giving freely of themselves in time, interest, energy and money for a cause they believe in. An estimated 70 million American volunteers now work for one or more worthwhile causes. And I'm very happy that thousands of those volunteers -- like yourselves -- have chosen to work with the Treasury Department, and the American people on the U.S. Savings Bonds program.

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We call Savings Bonds our <u>non</u>governmental government program, because 97 percent of people working in the program are unpaid volunteers. Even our advertising program is donated by the National Ad Council. And I feel right at home with volunteers because I was one myself for so many years.

I think we all know the personal advantages of buying bonds. They are safe and secure in an uneasy world. Their six percent interest is competitive with other savings institutions and with the stock market. And they have some significant tax advantages.

Further, they are good for the country. About 23 percent of the total public debt in private hands is in the form of U.S. Savings Bonds.

This 23 percent is far and away the most stable part of the debt, because E and H Bonds remain outstanding, on the average, for more than six years. This compares to less than three years, on the average, for other marketable instruments.

This long-term stability is important for two reasons.

First, when the holding time decreases, any debt becomes more liquid, and this can be inflationary.

And second, the job of refinancing a rapidly maturing national debt is difficult and expensive.

So, Savings Bonds are good for America and good

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for Americans. Last year we had the highest sales since World War Two. For the first four months of this year, sales are even higher. We Americans know a good thing when we see it, and Savings Bonds are good in many, many ways.

Of course, to save money, you must make money -- you must work. Here in America 85% of all jobs are in the private sector of our economy. Yet it's my observation that the whole story of the American free enterprise system is not well understood.

The consumers' viewpoint of our economy is well known. Consumers, of course, want prices to stay down.

Workers and labor unions legitimately desire higher wages, job retention and more fringe benefits. That, too, is well known.

But where is the third viewpoint? Who is giving us, and our children, an informed insight into what the businessman thinks and expects and what his problems are?

Think about it. "Profits" is a dirty word to many people, especially young people, implying greed or even dishonesty.

I say "nonsense" -- and sometimes I even say something even stronger.

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It seems to me that businessmen need not feel defensive because they earn money. Profits are what make a company healthy, and what allows the owner to provide more jobs.

As for excessive profits -- corporate profits today, in the aggregate, are at an all-time low as a percentage of our total national income, taking inventories and depreciation into account. Figures show that after-tax profits have dropped by 50 percent since 1965. But that, too, is an unpublicized story.

Of course, the free enterprise system isn't perfect, because it's operated by imperfect people like you and me. But when I hear capitalism denounced, I am reminded of Sir Winston Churchill's remark about democracy. "Democracy," said Sir Winston, "is the worst form of government, except for all of those other forms that have been tried."

The free enterprise system can be defended not as super-good, but as better than its competitors.

Since I am a strong advocate of this system, people sometimes ask me: "If free enterprise works so well, why do we have such a high rate of inflation and unemployment?"

Well, we all know there are several reasons for this.

We fought a war in Viet Nam and charged it.

We have sustained world-wide crop failures.

We have just recently suffered an oil embargo and prices on oil are higher.

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But more fundamentally, we have, for years, as a nation abused our economic system.

-- Our Federal government puts enormous demands on the economy. This year our national budget is past the $300 billion barrier. And for the first time, the Treasury Department is borrowing money that will not be repaid until the 21st century.

-- Our national monetary policy -- huge deficits, heavy borrowing and a growing money supply -- has increased our problems.

-- The proliferation of government regulations continues and we continue to encourage consumption and federal spending at the cost of savings and investments. As you know, the record of capital investment in the United States in recent years has been the lowest of any major industrialized nation in the free world.

These trends place enormous strains on our economy and are major causes of inflation. There are many recent signs of improvement. But we must still restore greater discipline to our financial affairs; lighten the hand of government on many areas of our economy; and encourage savings, investment and capital formation.

Finally, we must turn away from the doomsayers who see only the dark side of the world. We have an incredibly strong nation, both in spirit and in material

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goods. Now we need to speak to the good in each other.

But we need to do more than speak -- we need to act.

As parents, we need to instruct our children in economics. We must transfer to them our knowledge of the supply and demand system; our belief in the free marketplace, and the legitimacy of profit.

As business people, it is incumbent on us to take our knowledge and expertise into the classrooms, by actually serving as speakers and lecturers, and by seeing that our elected school board members transmit the need for sound economic education to the teachers.

As citizens, we must demand that the news media make some effort to understand our economic system and to report the third side of our free-enterprise story.

As voters, we must make certain that our elected officials -- from D.C. to City Hall -- understand that good economics is good politics.

As Americans, we must build on our strengths once more. Let us look back at our 200 years as a going, growing nation. Then let us look forward with confidence as we go about doing our jobs, raising our families and helping our society.

Thank you.

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FOR RELEASE ON DELIVERY, 10:00 A.M., EDT
TUESDAY, MAY 6, 1975

STATEMENT OF THE HONORABLE DAVID R. MACDONALD

ASSISTANT SECRETARY OF THE TREASURY

(ENFORCEMENT, OPERATIONS, AND TARIFF AFFAIRS)

BEFORE THE

SUBCOMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

TUESDAY, MAY 6, 1975

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Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you today to discuss the U.S. National Central Bureau of the International Criminal Police Organization - INTERPOL. With me today are James B. Clawson, Deputy Assistant Secretary (Operations); James J. Featherstone, Deputy Assistant Secretary (Enforcement); Louis B. Sims, Chief, National Central Bureau.

U.S. Membership and Funding

By statute (22 U.S.C. 263a), the Office of the Attorney General, U.S. Department of Justice, is the "Office of Responsibility" for INTERPOL in the United States. In 1958, the Attorney General designated the Department of the Treasury the official liaison with INTERPOL. There are currently ten full-time positions assigned to INTERPOL. One of these positions is presently located at the Headquarters of INTERPOL in France, and the remaining nine are located in the Main Treasury Building in Washington, D. C. These positions are funded as follows: Two (2) by the Department of Justice; two (2) by the Office of the Secretary, U.S. Treasury Department; two (2) by the U.S. Secret Service; three (3) by the U.S. Customs Service; and one (1) by the Bureau of Alcohol, Tobacco and Firearms.

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The Fiscal Year 1975 Department of the Treasury Salaries and Expenses Appropriation for the Office of the Secretary, in addition to the two (2) permanent positions, contains resources for travel and communication costs and for $80,000 for the INTERPOL annual dues. The Fiscal Year 1976 budget request for this appropriation does not reflect any increase over the '75 level.

Public Law 93-468, approved October 24, 1974, increased the limit on INTERPOL dues from $80,000 to $120,000. We are anticipating an additional funding requirement of approximately $120,000 in Fiscal Year 1977.

In September of 1974, the INTERPOL 43rd General Assembly voted an increase in the INTERPOL annual dues from 4850 Swiss francs per budget unit to 5900 Swiss francs per budget unit. The United States, Germany, Italy, United Kingdom and France pay 60 budget units each or the equivalent of 354,000 Swiss francs. Other member countries pay correspondingly less. In addition to the increased budget unit, currency fluctuations have increased the dollar equivalent of the budget unit as expressed in Swiss francs. For this reason, annual dues have ranged in value from $117,420 in October, 1974, to $147,000 in February, 1975, and are now valued at approximately $138,000. The current U.S. dues represent 5.8 percent of the overall

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1952, the German Federal Republic was allowed to join INTERPOL.

INTERPOL presently consists of 120 member countries with the General Secretariat located in Saint Cloud, France, outside of Paris. The Secretary General is a French citizen named Jean Nepote. The current President of INTERPOL is Mr. William L. Higgitt, recently retired Commissioner of the Royal Canadian Mounted Police, and presently head of the Canadian Safety Council, who was elected in 1972 by the General Assembly.

Mr. Jean Nepote, the current Secretary General of INTERPOL, was elected by the General Assembly in 1963, and was re-elected in 1968 and 1973. Mr. Nepote is a "Commissaire Divisionnaire" of the French Surete Nationale, a "Chevalier" in the French Legion of Honour, and has been decorated by a number of other countries.

INTERPOL is an intergovernmental organization composed of member countries represented by their law enforcement officials. This normally is the head of the National Police. In the U.S., the designated representative is the Assistant Secretary of the Treasury who is responsible for law enforcement. The National Central Bureau of each country maintains its sovereignty by operating within its country's laws. In the United States, the National Central Bureau operates by

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budget of 5,919,520 Swiss francs.

In 1974-75, the U.S. made a one-time, non-recurring, voluntary contribution of $135,000 from Foreign Assistance Funds for International Narcotics Control administered by the Department of State. In accordance with normal practice in the case of Foreign Assistance Funds, Senator Inouye and Congressman Passman, Chairmen of the Foreign Operations Subcommittees of the Senate and House Appropriations Committees, were advised of this contribution at the time. The U.S. contribution is used to support an INTERPOL liaison office for illegal drug enforcement for Southeast Asia and Latin America. This same program as set up in Europe has been so successful in combatting drug traffic that the number of liaison offices in Europe has been increased this year from three (3) to five (5). The European program is funded by contributions from European countries.

History of INTERPOL

Our research indicates the following to be accurate with respect to the history of international cooperation by national police organizations. An organization called the International Criminal Police Commission (ICPC) was organized in 1923 and was located in Vienna, Austria. The constitution of the organization at that time required that the head

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of the Austrian police be, by virtue of his office, automatically the Secretary General of ICPC. At the time of the Anschluss in 1938, Nazi forces which occupied Austria deposed the Austrian police chief, took a Nazi literally from the jails of Vienna and installed him as new chief of the Austrian police. The Nazis then claimed that by virtue of the ICPC constitution, this same man automatically assumed a position as head of the ICPC. As a result, cooperation with the ICPC by the free world steadily disappeared and by 1938, when World War II began, the activities of the ICPC outside Nazi controlled areas virtually ceased. In 1942, the Headquarters of the ICPC were transferred to Berlin under unknown circumstances. Whatever was left of the ICPC died with the death of the Third Reich.

In 1946, under the leadership of Sweden and other free world countries, several of the countries which had resigned from the ICPC before or during World War II met and determined to form a new organization, headquartered in Paris, France. This time the member countries were smarter. They drafted a constitution which provided for an elected president and elected directors, in order to avoid the outside seizure of the organization as had occurred in 1938. This organization came to be known as INTERPOL. In

statute, and answers to the Assistant Secretary of the Treasury and to the Congress.

Functions of INTERPOL

INTERPOL's function is to provide the communications mechanism for law enforcement agencies (local, State or Federal), having a foreign investigative requirement, to transmit that requirement to other appropriate foreign agencies. Television drama to the contrary notwithstanding, INTERPOL has no investigative force of its own and carries on no investigations. It has no control over its constituent countries' police forces, so it is unable to do anything other than transmit information or requests for action by one country's police to another country's police. These requests will be complied with if the recipient country sees fit to do so. The requests for information or action which are handled by INTERPOL normally range from a criminal history record check to a full investigation, leading to the subsequent arrest and extradition of an international criminal. The United States National Central Bureau (NCB) activities and efforts are directed toward:

1. Arranging for prompt assistance by foreign police to law enforcement agencies in the United States (local, State and Federal) in their investigative requirements.

2. Arranging for prompt assistance to a foreign investigative requirement in the United States, provided it concerns a criminal investigation and is in accord with United States law.
3. Increasing State and local law enforcement's awareness of the assistance available through INTERPOL in the event they have foreign investigative requirements.

In consonance with its function of acting as the medium of communication between foreign and U.S. law enforcement agencies, the United States NCB does not arrange for assistance to law enforcement agencies in the United States regarding their domestic investigative requirements.

The FBI has granted the United States NCB access to the FBI's National Crime Information Center (NCIC). This access is granted pursuant to the guidelines established by the FBI for the protection of individual's rights and covers only those records containing information on:

1. Stolen Securities
2. Stolen Motor Vehicles
3. Wanted Persons (Warrants Outstanding)
4. Stolen, Missing or Recovered Guns
5. Stolen Boats
6. Stolen License Plates
7. Computerized Criminal Histories

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Director Clarence M. Kelley of the FBI has states: "The NCIC is not, as some have alleged, a secret intelligence-gathering network filled with loosely managed and frivolously gathered information concerning anyone coming to the attention of the police. It has indexed only the names of individuals for whom arrest warrants are outstanding or persons who have had substantial involvement, supported by fingerprint records, with the criminal police system."

Member countries of INTERPOL, United States law enforcement agencies or any other organization, person, etc. with whom the United States may come into contact within the course of carrying out its responsibilities, have <u>no</u> direct access to criminal records in the United States. Requests from law enforcement agencies for information contained in the United States are evaluated individually by Federal agents assigned to the United States NCB and arrest or other information is provided as approved (1) by the agency from which the information is obtained and (2) by the responsible agent in the United States NCB. This is known as the "Third Agency Rule", and applies to all exchanges of information between enforcement agencies.

The procedure within INTERPOL requires the requesting country to state the nature of its investigative request, which includes identifying its investigation and the reason for the request. If this is not stated along with the request, the receiving country will make a request for that information prior to transmitting the request. The request must be in

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accord with the laws of the country receiving the request, as well as being related to a criminal offense in both countries. Furthermore, the request must not be in conflict with Article III of the INTERPOL Constitution which reads, "It is strictly forbidden for the organization to undertake any intervention or activities of a political, military, religious or racial character." This Article, of course, does not prohibit a criminal inquiry concerning a political activist who commits generally recognized criminal activity, such as bank robbery.

A typical request would concern a case in an INTERPOL member country where John Doe, United States citizen, has become the subject of a criminal investigation. Upon receipt of this information, the United States NCB queries NCIC and determines, for example, that there is a warrant out for the arrest of the subject by the Los Angeles Police Department. The Los Angeles Police are immediately notified of the subject's present location and situation so they can initiate extradition papers through diplomatic channels or commence any other action they deem advisable in the case. The foreign country is notified that the subject is wanted by authorities in the United States and advised of the charge against the subject as well as his criminal history.

Through INTERPOL we can locate a United States wanted person and frequently this results in the apprehension and

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prosecution of an international criminal. The same situation commonly exists when the subject is a foreign national and is wanted in the United States.

If INTERPOL did not exist, the same international inquiries and investigative requests would be made by both U.S. and foreign enforcement agencies in a much more haphazard and costly fashion. The same information would be given out by the receiving agencies on a unilateral basis and without the additional filtering protection provided by the constitution and long standing practices of INTERPOL. By the nature of its function, INTERPOL does not add or subtract any substantive dimension to the law enforcement investigative process. The protection of rights in connection with this process is and must be the responsibility of the law enforcement agencies who approve the transmission of information. INTERPOL is a useful communications tool used by national enforcement agencies.

This concludes my statement, and my associates and I will be pleased to answer any questions that the Committee may have. Thank you.

EXECUTIVE OFFICE OF THE PRESIDENT

COUNCIL ON WAGE AND PRICE STABILITY

726 JACKSON PLACE, N.W.

WASHINGTON, D.C. 20506

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May 7, 1975

MEMORANDUM FOR CORRESPONDENTS:

For information call:
(202) 456-6757

Following is the text of a telegram Albert Rees, Director of the Council on Wage and Price Stability, sent to Representative Norman A. Murdock of the Ohio legislature in response to his request for a Council opinion on a bill which would compel prices to appear on grocery store items:

> We are informed that H. 720, a bill to require prices in arabic numbers to be marked on merchandise displayed for sale, is being considered by the Ohio legislature. Such bills would deprive consumers of much of the considerable savings to be achieved through automated checkstands. Such systems should be given a complete and fair test to ascertain whether or not adequate price information can be given consumers through shelf labels and itemized receipts. H. 720 would prevent testing and therefore, we urge that it be defeated.

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

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FOR IMMEDIATE RELEASE May 6, 1975

RESULTS OF AUCTION OF 3-1/4-YEAR TREASURY NOTES

The Treasury has accepted $2.75 billion of the $5.3 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	7.60% 1/
Highest yield	7.74%
Average yield	7.70%

The interest rate on the notes will be 7-5/8%. At the 7-5/8% rate, the above yields result in the following prices:

Low-yield price	100.001
High-yield price	99.604
Average-yield price	99.717

The $2.75 billion of accepted tenders includes 15% 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, $2.35 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 $325,000

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FOR IMMEDIATE RELEASE May 6, 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 $5,600,000,000 , or thereabouts, to be issued May 15, 1975, 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 February 13, 1975, and to mature August 14, 1975 (CUSIP No. 912793 XJ0), originally issued in the amount of $2,499,115,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,800,000,000, or thereabouts, to be dated May 15, 1975, and to mature November 13, 1975 (CUSIP No. 912793 XX9).

The bills will be issued for cash and in exchange for Treasury bills maturing May 15, 1975, outstanding in the amount of $4,805,195,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,786,370,000. 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 Daylight Saving time, Monday, May 12, 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 May 15, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 15, 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 ON DELIVERY

Statement of
The Honorable Jack F. Bennett
Under Secretary of the Treasury for Monetary Affairs
Before the
Subcommittee on Foreign Commerce and Tourism
Senate Committee on Commerce
May 7, 1975

Foreign Investment in the United States

Mr. Chairman, I am pleased to have the opportunity to present to this Committee the Administration's view on foreign investment in the United States and on the three bills, S.1303, S.329 and S.995, which are now being considered by your committee.

The subject of foreign investment in the United States has received intensive attention over the past year in both the Congress and the Executive Branch and there are two basic propositions on which we appear to be in agreement:

-- Foreign investment in the United States is, on the whole, beneficial and, subject to limited restrictions, should continue to be welcomed as a healthy input to our economy.

-- More information on foreign investment should be available to all branches of the Government and to the public.

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It is my impression, however, that the bills before you do not adequately take into account the fact that steps have already been taken to make that information available and do not adequately take into account that in these circumstances new legislation could have the practical effect of deterring beneficial new investment in the United States. Legislation discriminating against foreign investors could result in foreign investors discriminating against us.

Data on Foreign Investment

In view of the sharp increase in the investment potential of the oil-producing countries, it is understandable that a concern over foreign investment in the United States and a desire for more information have developed. However, I think there may be some misconceptions about the total magnitudes involved, and about the capability the Government now has to follow developments in this area. We have a substantial amount of information on new inflows with respect to both overall amounts and the acquisition of operating control over individual publicly traded firms, and we believe that many of the concerns frequently expressed about the adequacy of this information are unfounded.

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The published data on foreign direct investment inflows into the United States show figures of $2.5 billion in 1973 and $2.3 billion in 1974. However, these figures drop to $1.8 billion in each year, when one set of transactions -- those associated with the foreign purchase of a U.S.-incorporated company, whose entire operations are abroad -- are excluded. Of the remaining $1.8 billion a major part, of course, represented capital inflows into companies that were already foreign-controlled.

The flows of foreign portfolio investment into U.S. securities (excluding U.S. Government issues) actually fell from $4.8 billion in 1973 to $2.1 billion in 1974. The major portion of this decline consisted of a decrease in foreign purchases of stocks -- from $2.8 billion in 1973 to $0.5 billion in 1974. Even after taking into account the depressed conditions on U.S. stock markets, it is obvious that foreigners did not rush in to take advantage of bargain prices. In the early months of this year, with the rise in U.S. stock prices, foreign interest in portfolio investment in U.S. stocks seems to have picked up.

There is no evidence, however, of any trend toward takeover of important segments of U.S. industry by foreign interests. Reports to the Securities and Exchange Commission and other sources of information show no significant foreign activity in this regard. According to reports to the SEC during the period January, 1974 through April, 1975 by purchasers of over 5% of the stock in U.S. publicly held companies, their purchases involved 72 U.S. companies. The majority of the U.S. companies were small and the foreign investors were mainly from the U.K., Canada, Netherlands, Germany and Japan. During this period, foreigners gained majority control of only three U.S. industrial companies with assets of over $100 million. In these cases the investors were private European and Canadian companies.

OPEC Investment

The evidence does not suggest that the United States is being inundated by foreign investment. Thus any concerns presumably are, for the most part, based on the potential for future investment, particularly by the OPEC countries. Some of the alarming estimates of long-run OPEC financial accumulations made last year have, however, already been drastically reduced, and several new sets of projections also suggest a lower level of peak investment accumulation by these countries on the order of $175 to $250 billion

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in dollars of 1974 purchasing power. In any case, of the estimated $60 billion in total accumulations by OPEC countries in 1974 (which we believe will prove to be their peak year) we estimate that only about three quarters of a billion dollars was placed in long-term private investments in the United States, and the bulk of that investment was made in securities chosen and managed by private U.S. financial institutions.

Looking ahead, we predict that the oil producing countries will place a larger proportion of their investments in longer-term debt and equity instruments. We hope that a substantial amount of these investments will take place in the United States, but we must take account of the facts that the rate of investment by the oil producers outside their own countries now appears to be declining and, furthermore, that the percentage coming to the United States seems to be smaller this year than last year.

The managers of OPEC funds have indicated to us that they have neither the desire nor the necessary skilled manpower to gain or maintain control over major segments of the U.S. economy. Rather, they are following the diversified investment objectives of institutional investors. Thus, while there may be some additional cases of major investments similar to the proposed - but not yet final - arrangements between Iran and Pan Am, for instance, we seriously doubt whether any of the major OPEC investors would consider any moves in this area which we might view as inimical to the U.S. national interest.

The New Administration Initiative

We expect that the likelihood of difficulties arising over OPEC investments in this country will be further minimized by the new Administration initiative with respect to inward investment. You may recall that in testimony on March 4 before the Subcommittee on Securities of the Senate Committee on Banking, Housing and Urban Affairs, Administration witnesses laid out our new approach to providing more information and to dealing with potential major investments in this country by foreign governments. We believe that this new approach offers us the means to achieve the same basic objectives as the three bills before this Committee while enabling us to avoid the disadvantages inherent in them.

Our new initiative involves the establishment of a high-level, interagency Committee on Foreign Investment and a new Office on Foreign Investment which will deal

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with these concerns, and make periodic reports on foreign investments here as well as recommendations on any legislation that may be warranted in light of future developments. At the same time, we are making arrangements with the pricipal potential foreign governmental investors on advance consultations on major prospective investments in this country.

In undertaking these various measures we have taken care to assure that they will not be construed as a break from our traditional policy of neutrality towards incoming foreign investment. Investment decisions, both within and among countries, are affected by psychological factors as well as by laws and regulations. In making such decisions with regard to investments in the United States or any other country, potential foreign investors look at developing trends, the general climate for investment, and the prospects for the future. They consider political as well as economic factors, just as U.S. investors do when they contemplate making investments in other countries. Legislation which singles out foreign investment for discriminatory treatment will inevitably be interpreted as a negative factor for the future.

There is also the question of what effect an apparent change in attitude toward foreign investment by the U.S. Government would have on foreign governments. The question is not primarily whether other governments would retaliate in kind in the short run. Rather it is what such actions by the United States would signal to other governments about our views on the more basic policy issues concerned with the free flow of capital between countries. Throughout the postwar period the United States has been the champion of liberalizing the international flow of trade and capital, and substantial progress has been made. Legislation which appeared to point in the opposite direction could compromise our efforts to minimize artificial impediments to capital in seeking its most productive place of employment.

This is not to say that we rule out the possibility that legislation may be necessary at some point in the future. We are aware, as you are, Mr. Chairman, that there may be gaps in our various reporting requirements on foreign investments in this country. The new Office we are establishing will be specifically charged with drawing together the information collected by these various sources and combining it, with the objective of

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obtaining as clear and comprehensive a picture as possible of the activities of foreign investors in the United States. Once that is accomplished the Office can identify the gaps in our existing reporting system and determine what legislation, if any, might be required to fill them.

Existing Sources of Information

Since it is not generally appreciated how much information on foreign investment is currently available to us and how much new information we will be developing in the months ahead, I think it would be useful for me to give some details.

With respect to aggregate data showing overall inflows and trends, our reporting program for the balance of payments yields quarterly data on direct investment and monthly data on portfolio investment with reporting lags of about 3 months and 2 months respectively. The specific data collected under these programs are described in detail in the CIEP/OMB study which the CIEP witness will be submitting to the Committee later today. While no reporting system is all inclusive, there is no reason to believe that these data significantly underestimate the aggregate inflows of foreign capital. Sample tables of some of the data collected by the Treasury are reproduced in Attachment A to my statement.

With respect to data on investment in individual companies, our main source of information is the filings with the SEC, required by law, by foreign as well as domestic investors acquiring more than 5 percent of any class of equity security of publicly traded corporations. These filings under Section 13D of the Securities Exchange Act of 1934 provide detailed information on the identify of the purchaser (although there is no requirement under this section to disclose the party's nationality), the source of his funds, the purpose of his acquisition, and his plans for the company. We have compiled the transactions in 1974 and 1975 which appear to have been made by foreign persons. This is presented in Attachment B.

Newspapers and trade journals, which normally pick up any transactions of significance, and discussions which businessmen have with U.S. officials are also valuable sources of information on foreign investment. Negotiations on foreign investment in U.S. companies are frequently reported, thus alerting us to potential investments.

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Finally, the benchmark surveys being undertaken by the Commerce and Treasury Departments in accordance with legislation introduced by this Committee will give us a wealth of detail. The Treasury survey will show as of end-1974, foreign portfolio investment, in the form of both equity and debt, in U.S. companies with assets of more than $1 million where foreign control is less than 10 percent. This information will be broken down to show foreign holdings by type of foreign investor from each foreign country. Attachment C to my statement, which is a copy of two of the forms required from reporters, shows this detail.

While the Treasury survey is aimed at portfolio investment, it will also produce abbreviated reports from U.S. companies which are 10 percent or more owned by foreigners, that is, through direct investment. These reports will show for each such company asset size, total revenue, kind of business and the percentage of foreign ownership. We expect to have a very substantial proportion of our data ready for inclusion in the preliminary report, which will be submitted to Congress in October. The Commerce Department survey will give even more detail on direct investment in the United States.

Proposed Legislation

We already gather a substantial amount of information on foreign investment in the United States through the reporting requirements of a variety of agencies, and this data will soon be supplemented by the results of the benchmark surveys now in progress. Moreover, it is intended that the new Office of Foreign Investment in the United States will be drawing all this information together for the first time to give us as comprehensive a picture as possible of the extent and nature of foreign investment here. The new Office will also be charged with the task of identifying the gaps in our existing system and making recommendations for legislation or administrative action to fill in these gaps.

Therefore, we feel that we should wait and see the results of these extensive efforts rather than legislating new measures at this time.

Furthermore, we are troubled by provisions of S.1303 which would go well beyond existing data-gathering programs in the type of investment to be reported and the level of ownership or control which would trigger a reporting obligation. In particular, we do not see any justification for the broad discretion granted to the

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Secretary of Commerce under the bill to lower the reporting threshold below the five percent level that is currently the statutory basis for the SEC's reporting requirements.

Further, the extension of reporting obligations to investment in nonpublic companies having assets of $3,000,000 or more as provided for in this bill, seems unwarranted without some evidence that investment in all such companies by foreigners would be of concern to us as a matter of course. We feel that such evidence is lacking. In fact, the industries that would be of greatest concern to us are already subject to special disclosure rules administered by the Federal regulatory commissions and the Defense Department.

Section 6(b)(1)(C) of the bill would extend the reporting requirements to other business arrangements which would give a foreign investor "predominant influence" over a public or nonpublic company covered by the Act, or result in the ownership or control of more than $1,000,000 in property in the United States. We feel that this provision is extremely overbroad and would tend to have a chilling effect on foreign investment in a variety of constructive business arrangements. Foreign investors would have to guess at which arrangements might trigger the attention of the Administration or bring about a reporting obligation. This is of particular concern in that the bill would impose a reporting obligation directly on the foreign investor as well as on other persons.

In addition, the inclusion in this provision of \$1,000,000 worth of U.S. property of unspecified type seems lacking in foundation. There would not appear to be any reason for United States concern over ownership or control of \$1,000,000 of property without regard to its type or importance. However, the bill would permit the Secretary to establish an even lower figure. We perceive the same difficulty of rather low threshold figures in Section 6(b)(1)(D) dealing with investments in real estate.

In the aggregate, these new disclosure requirements would place a Federal reporting burden on many persons not presently so affected without a showing of need for such additional detailed information. We should bear in mind that our current reporting requirements are considered by many firms and individuals as onerous.

The bill also contains several provisions that would severely hamper the ability of the Government to develop well-coordinated positions and recommendations on foreign

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investment and to give all appropriate agencies an opportunity to contribute to the process. For example, Section 5(7) of the bill would permit the new agency which would administer this Act, in the discretion of its Director, to propose additional programs in furtherance of the policy of the Act to the pertinent Congressional committees without prior submission or clearance by any other agency or officer of the United States.

In addition, Section 7 would authorize the Secretary to issue statements and guidelines on foreign investment in companies and industries important to the United States' national security, foreign policy, and economic security. In effect, the head of a single department would be given the sole power to make economic policy judgments of a sort which should result from comprehensive interagency review within the Executive branch in cooperation with Congress.

The provisions governing the confidentiality of information for purposes of publication or release to other agencies are too indefinite to be soundly implemented by the new administration or to provide adequate assurances to investors. Section 6(d), for example, provides for rather broad discretion on the part of the agency as to what information can be published. This vagueness would be of serious concern to investors in view of the apparent authority of the agency to obtain information submitted in confidence to other Federal agencies. It would also create enforcement problems not now present since some firms feel very strongly about the confidentiality of the data now supplied.

Moreover, the interrelationship of the provisions of Section 8 relating to obtaining information from, or releasing it to, other agencies is not clear. Paragraph (a) of that section seems to grant to the agency very broad discretion in the release of information. However, it is not clear how much this authority is restrained by the confidentiality provisions of Paragraph (b). In addition, the possibility that IRS information could be obtained would violate the privacy of tax return information. Finally, the authority contained in the section to release information to foreign governments seems both unnecessary and unwise, and no standards are provided as to the circumstances where this might be done.

My remarks on the extensive detail called for in S.1303 are also applicable to S.329, which would establish even lower thresholds for reporting, going down to one-half of one percent of the outstanding marketable securities

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of U.S. firms. This would entail a tremendous reporting burden for no significant benefit and would be quite costly for the new office to process and analyze effectively.

S.995 would require the approval of the Secretary of Commerce for foreign government investment in the United States above certain minimum levels. The Administration recognizes the new circumstances arising from the sharp increase in oil prices which presumably have prompted this bill. It is for this reason that we are making arrangements with the principal governmental investors for advance consultations on major investments in the United States. We already have had clear indications that those countries recognize our legitimate concerns regarding the potential for investments of a controlling nature in U.S. firms by countries that are accumulating large investable reserves. In certain instances, such as the recent Iranian negotiations with Pan Am, they have already informally sought advance concurrence of the U.S. Government. In addition, the communique following the meeting of the U.S.-Saudi Arabia Joint Commission said that the two governments "agreed that each government would consult with the other regarding significant undertakings" in the other government's country.

We feel that this kind of cooperative preventive approach is sufficient to safeguard against possible unwanted investments by foreign governments and is preferable to restrictive legislation which would likely be regarded as a signal of a hostile U.S. attitude toward all investment by foreign governments and thereby deter much desirable investment.

Mr. Chairman, I feel that developments thus far plus the measures recently announced by the Administration make new legislation as proposed in these three bills unnecessary at this time, and that these bills would institutionalize procedures which both the Congress and the Executive Branch might later find to be a cure worse than the disease.

I want to reiterate, however, that the Administration does not foreclose the possibility that some legislation may be needed at a later time. If this should be the case, we would hope to work closely with the Congress to help design the best possible legislation. The Foreign Investment Study Act of 1974, which was initiated by this Committee, is a good example of how close cooperation between the two branches of government can produce good legislation. We look forward to a continuing dialogue with this Committee in a spirit of cooperation.

CAPITAL MOVEMENTS

Section V - Transactions in Long-Term Securities by Foreigners Reported by Banks and Brokers in the United States

Table CM-V-1. - Foreign Purchases and Sales of Long-Term Domestic Securities by Type

(In millions of dollars; negative figures indicate net sales by foreigners or a net outflow of capital from the United States)

Calendar year or month	Marketable Treasury bonds and notes						Corporate and other securities						
	Net foreign purchases				Gross foreign purchases	Gross foreign sales	Net foreign purchases of corporate and other securities	Bonds 1/			Stocks		
	Total	Foreign countries		International and regional				Net foreign purchases	Gross foreign purchases	Gross foreign sales	Net foreign purchases	Gross foreign purchases	Gross foreign sales
		Official institutions	Other foreigners										
1958	36	-237		273	1,224	1,188	-39	17	361	344	-56	1,397	1,454
1959	689	524		165	1,217	528	435	73	369	296	363	2,224	1,862
1960	127	-98		224	1,730	1,603	252	50	442	392	202	1,977	1,775
1961	512	-20		532	1,744	1,231	223	-99	317	416	323	3,067	2,745
1962	-728	-207		-521	1,780	2,508	60	-51	308	359	111	2,260	2,149
1963	671	369		302	1,867	1,196	207	9	256	246	198	2,724	2,527
1964	-338	-59	36	-315	1,149	1,487	-173	176	461	284	-349	3,076	3,425
1965	-76	-20	95	-151	1,077	1,153	-375	38	675	637	-413	3,720	4,133
1966	-616	-245	56	-427	680	1,296	678	1,011	1,553	542	-333	4,740	5,074
1967	-43	48	30	-121	585	629	1,070	313	2,243	1,929	757	8,033	7,276
1968	-489	-380	51	-161	443	932	4,234	1,964	4,446	2,481	2,270	13,118	10,848
1969	-45	-115	59	11	528	574	2,688	1,202	3,054	1,853	1,487	12,429	10,942
1970	56	-41	123	-25	691	634	1,582	956	2,499	1,543	626	8,927	8,301
1971	1,672	1,661	-119	130	2,414	742	1,435	703	2,967	2,263	731	11,626	10,894
1972	3,316	3,281	-22	57	4,358	1,043	4,068	1,881	4,723	2,842	2,188	14,361	12,173
1973	305	465	5	-165	2,738	2,433	4,764	1,979	5,812	3,832	2,785	12,762	9,978
1974	-418	-646	70	156	3,130	3,547	2,073	1,615	8,181	6,566	456	7,552	7,094
1974-Feb	-45	-37	-39	31	422	467	13	-144	459	603	157	743	586
Mar	157	-	-10	166	264	107	188	139	777	638	49	896	846
Apr	-237	-172	16	-82	225	462	222	203	549	346	19	577	559
May	-28	-7	-50	29	427	455	51	66	327	261	-15	576	591
June	-101	-	-3	-97	161	261	251	242	653	411	8	521	513
July	23	-	14	9	120	97	-7	-5	541	546	-2	508	510
Aug	-37	-73	-11	47	313	350	268	190	820	629	78	580	502
Sept	-116	-60	26	-82	183	298	180	178	914	737	2	447	445
Oct	70	-	38	32	201	132	205	226	895	669	-22	673	695
Nov	132	25	50	57	403	271	211r	224	919	695	-13r	604r	616
Dec	196	150	20	26	352	156	228	207	586	379	21	450	429
1975-Jan. p	68	118	10	-60	245	178	251	61	424	363	190	731	541
Feb. p	341	182	102	57	599	258	247	-287	271	557	534	1,382	849

1/ Data include transactions in issues of states and municipalities, and of corporations and other agencies of the U.S. Government.

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Section V - Transactions in Long-Term Securities by Foreigners Reported by Banks and Brokers in the United States

Table CM-V-9. - Foreign Purchases and Sales of Long-Term Securities, by Type and Country, During February 1975 Preliminary

(In millions of dollars)

Country	Gross purchases by foreigners						Gross sales by foreigners					
	Total purchases	Domestic securities			Foreign securities		Total sales	Domestic securities			Foreign securities	
		Marketable Treasury bonds and notes	Corporate and other		Bonds	Stocks		Marketable Treasury bonds and notes	Corporate and other		Bonds	Stocks
			Bonds	Stocks					Bonds	Stocks		
Europe:												
Austria	9	-	*	8	*	1	3		*	3	-	*
Belgium-Luxembourg	57	1	7	39	7	2	45	*	6	31	7	1
Denmark	1	-	*	1	*		1		*	1	-	-
Finland	*	-	*	*	*	-	*	-	*	*	-	-
France	119	1	5	104	5	4	108	5	9	83	6	5
Germany	112	*	7	90	5	9	89	-	5	65	6	13
Greece	4	-	-	3	*	*	5	-	*	5	-	*
Italy	24		3	16	4	*	25	1	3	17	3	1
Netherlands	81	20	1	49	2	8	63	22	1	35	2	3
Norway	6		*	6	*	*	5	-	*	4	*	*
Portugal	1	*	*	1	*		2	-	*	2	*	*
Spain	5	-	*	5	*	*	7	*	*	5	*	2
Sweden	3	*	1	1	*	*	3	-	1	2	*	-
Switzerland	373	*	20	324	18	11	241	1	17	209	9	5
Turkey	*	-	-	*	-		*		-	*	-	-
United Kingdom	506	83	117	251	24	31	390	34	200	103	25	27
Yugoslavia	*	-	-	*	-	-	*		-	*	-	-
Other Western Europe	13	11	-	2	-	*	13	10	*	3	-	-
U.S.S.R.	-	-	-	-	-	-	-	-	-	-	-	-
Other Eastern Europe	*			*	-	-	*	-	-	*	-	-
Total Europe	1,313	117	163	899	66	68	999	73	243	569	59	56
Canada	264	17	46	150	22	29	501	130	30	130	148	63
Latin America:												
Argentina	3	-	*	1	1	*	1	-	*	1	*	*
Bahamas	10	-	1	8	*	1	21	*	1	8	11	1
Brazil	*	-	*	*	*	*	*	-	-	*	*	-
Chile	*		*	*	*	-	*	-	*	*	-	-
Colombia	*	-	*	*	-	-	1	-	*	*	-	*
Cuba	-	-	-	-	-	-	-	-	-	-	-	-
Mexico	88	80	1	5	2	*	110	*	*	8	101	*
Panama	13	-	8	3	1	1	13	-	9	4	*	*
Peru	*	*		*	*	-	*	-	-	*	*	*
Uruguay	1	*	*	*	*	*	1	-	*	*	*	*
Venezuela	10	-	*	5	4	*	5	-	*	5	*	*
Other Latin American Republics	6		*	5	*	*	2	-	*	2	-	*
Netherlands Antilles and Surinam	146	96	11	37	2	*	69	36	10	23	*	*
Other Latin America	45		*	38	2	5	38	*	*	35	1	1
Total Latin America	322	176	21	104	12	8	261	36	21	86	114	4
Asia:												
China, People's Republic of (China Mainland)	-	-	-	-	-	-	-	-	-	-	-	-
China, Republic of (Taiwan)	*	-	*	*	*	-	*		-	*	-	-
Hong Kong	33	7	1	20	4	1	11	-	*	11	*	*
India	*	-	-	*	-	-	*	-	-	*		*
Indonesia	*	-		*	-	*	*	-	-	*	-	-
Israel	7		*	1	5	*	50	-	*	1	48	1
Japan	46	2	1	21	2	21	119	3	*	38	33	45
Korea	*	-	-	*		-	*	-	-	*	-	
Philippines	1	*	*	1	*	*	2	*	*	1	-	1
Thailand	*	-		*	*	-	*	-	-	*	-	-
Other Asia	415	209	35	169	1	1	13	-	*	13	*	*
Total Asia	502	218	37	213	11	23	195	4	*	63	81	46
Africa:												
Egypt	-		-	-	-	-	-	-	-	-	-	-
Morocco	*	-	-	*		-	*	-	-	*	-	-
South Africa	6	*	-	*		6	4	*	-	*	-	4
Zaire	*	-	-	*	-	-	-	-	-	-	-	-
Other Africa	*	-	*	*	*	*	*	-	-	*	-	*
Total Africa	6	*	*	*	*	6	4	*	-	*	-	4
Other countries:												
Australia	3		1	2	*	*	1	-	-	*	-	*
All other	*	-	*	*	*	-	*	-	-	*	-	-
Total other countries	3	-	1	2	*	*	1	-	-	1	-	*
Total foreign countries	2,410	528	267	1,369	113	133	1,961	244	294	849	402	173
International and regional:												
International	88	65	3	14	5	1	272	6	263	-	3	-
European regional	*		-		*	-	150	-	-	-	150	-
Latin American regional	5	5	-	-	-	-	8	7	1	-	-	-
Asian regional	-	-		-	-	-	-	-	-	-	-	-
African regional		-	-	-	-	-	-	-	-	-	-	-
Total international and regional	94	71	3	14	5	1	430	14	264	-	153	-
Grand total	2,504	599	271	1,382	118	134	2,391	258	557	849	555	173

* Less than $500,000.

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Attachment B

Section 13D Acquisition Reports by Foreign Investors, January 1974 - April 1975

The following compilations represent chronological listings of security acquisitions by apparent foreign beneficial holders, as reported on Schedules 13D filed with the Securities and Exchange Commission pursuant to Rules 13D-1 of the Rules and Regulations under the Securities Exchange Act of 1934. Schedule 13D does not require specific disclosure of the citizenship or domicile of persons controlling an acquiring entity although this is given in most cases. While a person must report within 10 days when his holdings reach over five percent of a class of security, the percentage amount of outstanding securities of the issuer held following the acquisition is not required. To the extent, therefore, that independent sources were required to be utilized in providing information on domicile and percentage holdings, the lists must be recognized to be incomplete and to represent approximations.

The security acquisition list involves abstractions from the monthly Statistical Bulletins and the daily News Digests, published by the S.E.C., which are based upon statistics compiled from the Schedule 13D reports by the Office of Registrations and Reports. The Statistical Bulletins and News Digests include the domicile country of the acquiring company or individual and percentage of securities held, where readily apparent from the Schedule 13D report filed by the acquirer. Information, including the domicile of possible foreign acquirers and the percentage of securities of the issuer held following the acquisition, when not indicated in the Statistical Bulletin, has been derived from an examination of certain of the Schedule 13D reports and certain independent reference sources, including the Moody's manuals. Transactions not involving U.S. controlled or domiciled issuers have been omitted to the extent possible.

Amended acquisition reports, identified by an asterisk are made when there are any changes in security holdings above the 5% level, or any other material changes in the contents of the original report. Thus, it is possible to follow changes in the amount of stock held, once the initial 13D report is filed.

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Reporting Company or Individual	Issuer and Number of Shares and Percentage of Ownership	Date Filed
*Hartford National Bank and Trust Co., Trustee (United States Philips Trust) (Netherlands)	North American Philips Corp. (Del.) Common Stock - 6,278,283 shs. (61%)	1-2-74
Hanson Holdings, Inc. (an indirect wholly owned subsidiary of Hanson Trust Ltd. (United Kingdom)	Gable Industries, Inc. (Me.) Common Stock - 534,200 shs. (22%) on consummation of Stock Purchase agreement with four shareholders	1-2-74
Fitzwilliam Resources Ltd. (Ireland)	Intercontinental Energy Corp. (Del.) Common Stock - 134,000 shs. (22%)	1-7-74
*Prixilla S.A. (Switzerland) Pricel S.A. (France)	Dymo Industries, Inc. (Cal.) Capital Stock - 426,200 shs. (16%)	1-17-74
Canadian and Foreign Investment Trust Ltd. (Scotland)	Invent Inc. (Del.) Common Stock - 20,000 shs.(1.4%)	1-30-74
Scottish American Investment Co., Ltd. (Scotland)	Invent Inc. (Del.) Common Stock - 51,000 shs.(3.5%)	1-30-74
Scottish Northern Investment Trust Ltd. (Scotland)	Invent Inc. (Del.) Common Stock - 60,000 shs.(4.2%)	1-30-74
Standard Life Assurance Co. (Scotland)	Invent Inc. (Del.) Common Stock - 75,000 shs.(5.2%)	1-30-74
U.B. (Holdings) U.S., Ltd. (Sub. of English Corp.)	Keebler Co. (Del.) Common Stock - 520,002 shs.(30%)	2-1-74
Fitzwilton Ltd. (Ireland)	National Mine Service Co. (W.Va.) Common Stock - 103,000 shs. (7%)	2-4-74

(* Amended or Supplemental Reports)

Reporting Company or Individual	Issuer and Number of Shares and Percentage of Ownership	Date Filed
*Edmond de Rothschild California European Co- Calrop, S.A. Lafayette Corp. (Luxembourg)	Bancal Tri-State Corp. (Del.) Common Stock - 650,550 shs. (20%)	2-5-74
Walter Haefner Holding AG (Switzerland)	Wyly Corp. (Del.) Common Stock - 804,400 shs. (10%)	2-11-74
*Liquifin Aktiengesell- schaft Liquigas S.p.A. (Liechtenstein & Italy)	Ronson Corp. (N.J.) Common Stock - 1,375,848 shs. (31%) (Above shares purchased pursuant to a tender offer which has been extended to February 22, 1974)	2-11-74
David Jones Ltd. (Australia)	Buffums' (Cal.) Common Stock - 510,357 shs. (53%) 6% Debentures 2,451,000 Prin.Amt. 5-1/2% Debentures 309,500 Prin.Amt. (Above purchased pursuant to the tender offer which has been extended to March 8, 1974)	2-15-74
*Liquifin Aktiengesell- schaft Liquigas S.p.A. (Liechtenstein & Italy)	Ronson Corp. (N.J.) Common Stock - 1,405,365 shs. (32%) (Above shares purchased pursuant to the tender offer which was extended to February 22, 1974)	2-15-74
*Compagnie de Saint- Gobain-Pont-A-Mousson (France)	Certain-teed Products Corp. (Md.) Common Stock - 3,453,237 shs. (31%) Common Stock - 600,000 shs. on conversion of Pfd	2-19-74
*Prixilla S.A. (Switzerland) Pricel S.A. (France)	Dymo Industries, Inc. (Cal.) Common Stock - 438,100 shs. (17%)	2-19-74
Bel-Fran Investments Ltd. Bel-Cal Holdings Ltd. Bel-Alta Holdings Ltd. (Canada)	Far West Financial Corp. (Del.) Capital Stock - 106,600 shs. (6%)	2-20-74
*David Jones Ltd. (Australia)	Buffums' (Cal.) Common Stock - 849,021 shs. (89%) 5-1/2% Debentures $397,500 Prin.Amt. 6% Debentures $3,079,000 Prin.Amt. (Above purchased pursuant to the tender offer through February 20, 1974)	2-25-74

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Reporting Company or Individual	Issuer and Number of Shares and Percentage of Ownership	Date Filed
*Liquifin Aktiengesell-schaft Liquigas S.p.A. (Liechtenstein & Italy)	Ronson Corp. (N.J.) Common Stock - 1,530,417 shs.(34%) (The above shares have been purchased as of February 22, 1974, pursuant to the tender offer which has been temporarily stayed until further order of the Court)	2-26-74
Japan International Technology Corp. (Sub. of Japanese Corp.)	IMC Magnetics Corp. (N.Y.) Common Stock - 36,300 shs.(5%) Common Stock - 200,000 shs. on conversion of Note	3-1-74
*Fitzwilton Ltd. (Ireland)	National Mine Service Co.(W.Va.) Common Stock - 207,735 shs.(14%)	3-6-74
*Edmond de Rothschild California European Co - Calrop, S.A. Lafayette Corp. (Luxembourg)	Bancal Tri-State Corp. (Del.) Common Stock - 660,600 shs.(21%)	3-7-74
*David Jones Ltd. (Australia)	Buffums' (Cal.) Common Stock 943,022 shs. (99%) 5-1/2% Debentures-$315,000 Prin.Amt. 6% Debentures - $3,251,000 Prin.Amt. (Above securities purchased pursuant to the tender offer through 3-6-74)	3-8-74
Schlesinger European Investors Ltd. (United Kingdom)	Overseas Securities Co., Inc.(N.Y.) Capital Stock - 45% of the outstanding shares on consummation of the agreement between SEI and Overseas	3-11-74
Accident and Casualty Insurance Co. of Winarthur, Switzerland (Switzerland)	CNA Financial Corp. (Del.) Common Stock - 1,917,428 shs.(6%) Conv. Series A Pfd - 530,013 shs.	3-12-74
Chevy Chase Property Co. Ltd. Foxwood Investors Inc. (Bermuda and Netherlands Antilles)	Combined Properties Corp. (Del.) Common Stock - 77,400 shs. (5%)	3-13-74
*Pricel S.A. (France) Prixilla S.A. (Switzerland)	Dymo Industries, Inc. (Cal.) Common Stock - 452,700 shs.(17%)	3-15-74

Reporting Company or Individual	Issuer and Number of Shares and Percentage of Ownership	Date Filed
*Stabetag AG (Switzerland)	Nachman Corp. (Ill.) Common Stock - 570,125 shs. (68%)	3-22-74
Ciba-Geigy Corp. (Sub. of Swiss Corp.)	Funk Seeds International, Inc. (Del.) Common Stock - 2,165,754 shs. (64%) (2,114,754 of above shares were purchased pursuant to the Tender Offer)	3-22-74
Ricoh of America, Inc. (A wholly-owned subsidiary of Ricoh Co., Ltd. (Japan)	Savin Business Machines Corp. (N.Y.) Common Stock - 20,000 shs. (.07%) Common Stock - 150,000 shs. on exercise of Warrants	3-25-74
*Accident and Casualty Insurance Co. of Winterhur, Switzerland (Switzerland)	CNA Financial Corp. (Del.) Common Stock - 2,038,728 shs. (6.2%) Conv. Series A Pfd - 530,013 shs.	3-26-74
*Fitzwilton Ltd. (Ireland)	National Mine Service Co. (W.Va.) Common Stock - 310,735 shs. (21%)	4-3-74
*Accident and Casualty Insurance Co. of Winterthur, Switzerland (Switzerland)	CNA Financial Corp. (Del.) Common Stock - 2,189,228 shs. (6.7%) Series A Conv.Pfd. - 530,013 shs.	4-4-74
*California European Co-Calrop, S.A. Lafayette Corp. Edmond de Rothschild (Luxembourg)	Bancal Tri-State Corp. (Del.) (San Francisco, Calif.) Common Stock - 670,600 shs. (21%)	4-5-74
*Pricel S.A. (France) Prixilla S.A. (Switzerland)	Dymo Industries, Inc. (Emeryville, Cal.) Common Stock - 454,700 shs. (18%)	4-10-74

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Reporting Company or Individual	Issuer and Number of Shares and Percentage of Ownership	Date Filed
*Japan International Technology Corp. (Sub. of Japanese Corp.)	IMC Magnetics Corp. (Westbury N.Y.) Common Stock - 45,300 shs. (7%) Common Stock - 200,000 shs. on conversion of Note	4-18-74
*Liquifin Aktiengesllschaft (Liechtenstein) (Italy)	Ronson Corp. (Woodbridge,N.J.) Common Stock - 1,539,011 shs.(34%)	4-22-74
Ivaco Industries Ltd. (Canada)	Laclede Steel Co.(St.Louis,Mo.)(Del.) Common Stock - 22,520 shs. (6%)	4-24-74
Establishments Machkim, Enkas, Opil and Norima (Liechtenstein)	Israel Hotels International,Inc. (Del.) (New York City) Common Stock - 1,256,530 shs.(92%)	4-25-74
Purnell & Sons Ltd. (England)	Harver Educational Services Inc. (Freeport, NY) (N.Y.) Common Stock - 68,917 shs.(22%)	4-26-74
*U.B. (Holdings) U.S., Ltd. (Sub. of English Corp.)	Keebler Co. (Elmhurt, Ill.)(Del.) Common Stock - All outstanding shs. (Through a merger of a wholly owned subsidiary into Keebler)	4-26-74
Triad Holding Corp., S.A. (Luxembourg)	Arizona-Colorado Land and Cattle Co. (Phoenix, Ariz.)(Ariz.) Common Stock - 500,000 shs.(15%)	5-1-74
*David Jones Ltd. (Australia)	Buffums' (Long Beach, Calif.)(Cal.) Common Stock - 949,780 shs.(99%) 5-1/2 Debentures-$317,000 6% Debentures - 3,272,000 (Above securities were purchased pursuant to a Tender Offer)	5-6-74
*Japan International Technology Corp.	IMC Magnetics Corp.(Westbury,N.Y.) (N.Y.) Common Stock - 60,600 shs. (9%)	5-6-74
*Fasco A.G. (Liechtenstein) (Italy)	Seaport Corp. (Pittsburgh,Pa.) (Del.) Common Stock - 765,570 shs.(44%) Common Stock - 200,000 shs. on exercise of Warrants	5-6-74

Reporting Company or Individual	Issuer and Number of Shares and Percentage of Ownership	Date Filed
*Fasco A.G. Fasco, Inc. (Liechtenstein) (Italy)	Argus Inc. (Ann Arbor, Mich.) (Del.) Common Stock - 895,178 shs. (11%) Common Stock - 480,000 shs. on conversion of Preferred	5-6-74
*Ropa Anstalt (Israel)	Hotel Corp. of Israel (Chicago, Ill.) Common Stock - 211,732 shs. (93%) (Above shares including shares issuable on conversion of Debentures, have been purchased under the Tender Offer)	5-9-74
Okuraya of America Inc. (Wholly-owned subsidiary of Okuraya Corp. (Japan)	Okuraya/Davos International,Inc. (N.Y.) (New York City) Common Stock - 1,500,000 shs.(27%) Common Stock - 1,000,000 shs. on exercise of option	5-10-74
*Ivaco Industries, Ltd. (Canada)	Laclede Steel Co. (St. Louis,Mo.) (Del.) Common Stock - 31,120 shs.(.08%)	5-13-74
*Liquifin Aktiengesllschaft (Liechtenstein)(Italy)	Ronson Corp. (Woodbridge,N.J.) (N.J.) Common Stock - 1,602,981 shs.(39%)	5-15-74
J. Lyons & Co. Ltd. (England)	TFI Companies, Inc. (Chicago, Ill.) (Del.) Common Stock - 1,786,739 shs.(59%)	5-20-74
*Compagnic De Saint-Gobain-Pont-A-Mousson (France)	Certain-Teed Products Corp. (Valley Forge, Pa.) (Md.) Common Stock - 3,492,737 shs. (31%) Common Stock - 600,000 shs. on conversion of Preferred	5-22-74
*Ciba-Geigy Corp. (Sub. of Swiss Corp.)	Funk Seeds International, Inc. (Del.) (Bloomington, Ill.) Common Stock - 2,996,165 shs.(89%)	5-23-74
*Schlesinger European Investments Ltd. (United Kingdom)	Overseas Securities Co., Inc. (N.Y.) (New York City) Capital Stock - 122,428 shs. (89%)	6-3-74
Burmah Oil Company, Ltd. (Scotland)	KMS Industries, Inc. (Ann Arbor, Mich.) Common Stock - Options to purchase up to 20% of Common Stock of its sub-	6-10-74

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Reporting Company or Individual	Issuer and Number of Shares and Percentage of Ownership	Date Filed
	sidiary, KMSF Fusion, Inc. have been acquired including rights to convert such shares into an equivalent percent of Common of KMS Industries	
Capitalfin International Ltd. (Bahamas) (Italy)	Signal Companies, Inc. (Beverly Hills, Calif.) (Del.) Common Stock - 983,492 shs. (4.7%) Conv. Pfd. - 12,877 shs.	6-11-74
*Pricel S.A. (France) Prixilla S.A. (Switz.)	Dymo Industries, Inc. (San Francosco, Calif.) (Cal.) Common Stock - 498,800 shs. (19%)	6-13-74
Fasco A.G. (Liechtenstein) wholly-owned by Michele Sindona (Italy)	Talcott National Corp. (New York City) (N.Y.) Common Stock - 1,600,000 shs. (52%)	6-14-74
Wilkinson Sword Inc., a wholly-owned subsidiary of Wilkinson Sword, Ltd. (England)	Scripto, Inc. (Atlanta, Ga.) (Ga.) Common Stock - 3,284,704 shs. (53.6%)	6-21-74
C. Itoh & Co., Ltd. (Japan) C. Itoh & Co. (America) Inc.	Cascade Steel Rolling Mills, Inc. (McMinnville, Ore.) Common Stock - 195,000 shs.	6-24-74
CIBA-GEIGY Corp. (Subsidiary of Swiss Corp.)	Airwick Industries, Inc. (Carlstadt, N.J.) (N.J.) Common Stock - 3,294,592 shs. (94.7%) (Above shs. were purchased pursuant to the tender offer which expired on June 21, 1974)	6-26-74
Hussel Holding AG (Switzerland) (wholly owned sub. of German Corp.)	Micron Corp. (Salt Lake City, Utah) Common Stock - 1,635,000 shs. (51%) Common Stock - 100,000 shs. on exercise of option	6-28-74
Societe de Traction et d'Electricite (Belgium)	Arthur G. McKee & Co. (Independence, Ohio) (Del.) Common Stock - 100,000 shs. (7%)	7-5-74
Denison Mines Ltd. (Canada)	Fibreboard Corp. (San Francisco, Calif.) (Del.) Capital Stock - 165,100 shs. (5%)	7-5-74

Reporting Company or Individual	Issuer and Number of Shares and Percentage of Ownership	Date Filed
Carpano et Pons (France)	Garcia Corp. (Teaneck, N.J.) (N.J.) Common Stock - 800,000 shs. (3.4%)	7-8-74
*Schlesinger European Investments Ltd. (England)	Overseas Securities Co., Inc. (N.Y.) (New York City) Capital Stock - 124,828 shs. (88%)	7-10-74
*Aktiebolaget Electrolux (Sweden)	National Union Electric Corp. (Greenwich, Conn) (Del.) Common Stock - 1,522,670 shs.(75%) (An additional 356,033 shares have been tendered pursuant to the Offer and, subject to certain requirements, will be purchased)	7-12-74
*Ropa Anstalt (Liechtenstein)	Hotel Corporation of Israel (Chicago, Ill.) Common Stock - 221,909 shs. (97.9%) including shs. that may be issued on conversion of Debentures (Above shs. acquired pursuant to the Tender Offer which expired on June 4, 1974)	7-17-74
*Ivaco Industries Ltd. (Canada)	Laclede Steet Co. (St. Louis, Mo.) (Del.) Common Stock - 50,620 shs. (1.3%)	7-18-74
International Mogul Mines Ltd. Canadian Vendbar Industries, Ltd. (Canada)	Graphic Sciences Inc. (Danbury, Conn.) (N.Y.) Common Stock - 254,750 shs. (8%) Common Stock - 195,690 shs. on exercise of Option Agreement with an executrix of an estate (Vendbar is a wholly-owned subsidiary of Mogul)	7-22-74
*C. Itoh & Co., Ltd. C. Itoh & Co. (U.S.) Inc. (Japan)	Cascade Steel Rolling Mills, Inc. (McMinnville, Oregon) Common Stock - 195,000 shs.	7-24-74
Multiple Access Ltd. (Canada)	TCC, Inc. (Dallas, Texas) (Tex.) Common Stock - 4,005,530 shs.(68%) Common Stock - 854,126 shs. on conversion of Debenture	8-2-74

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Reporting Company or Individual	Issuer and Number of Shares and Percentage of Ownership	Date Filed
Richard W. Evans (England)	Delos International Group, Inc. (Del.) (Waltham, Miss.) Common Stock - 68,500 shs. (6%)	8-5-74
*Schlesinger European Investments Ltd. (England)	Overseas Securities Co., Inc. (New York City) (N.Y.) Capital Stock - 128,428 shs. (91%)	8-5-74
*Japan International Technology Corp. (Sub of Japanese Corp.)	IMC Magnetics Corp. (Westbury,N.Y.) (N.Y.) Common Stock - 88,200 shs. (14%)	8-5-74
McCorquodale & Blades Trust, Ltd. (England)	Falconer Co. (Baltimore,Md.)(Md.) Common Stock - 158,855 shs. (51%) (Above shs. were purchased pursuant to the Tender Offer)	8-8-74
*Ivaco Industries Ltd. (Canada)	Laclede Steel Co. (St. Louis,Mo.) (Del.) Common Stock - 52,620 shs. (1.4%)	8-9-74
Dension Mines Ltd. (Canada)	Fibreboard Corp. (San Francisco, Calif.) (Del.) Capital Stock - 201,200 shs. (6.2%)	8-9-74
Henkel Inc., a wholly-owned subsidiary of Henkel GmbH (Germany)	Clorox Co. (Oakland, Calif.)(Cal.) Common Stock - 1,459,900 shs. (6.6%)	8-14-74
*International Nickel Co. of Canada, Ltd. (Canada)	ESB Inc. (Philadelphia, Pa.)(Del.) Common Stock - 5,287,780 shs. (95%) (Above shares purchased by Inco Holdings Inc., its wholly-owned subsidiary, pursuant to the Tender Offer)	8-16-74
*Dr. Wolfgang Forster (West Germany)	R. D. Products, Inc. (Victor, N.Y.) (N.Y.) Common Stock - 583,334 shs. (31%)	8-21-74
Creusot-Loire (France)	Alan Wood Steel Co. (Conshohocken, Pa.) (Pa.) Common Stock - 78,000 shs. (9.7%) Common Stock - 44,400 shs. on exercise of Option	8-26-74

Reporting Company or Individual	Issuer and Number of Shares and Percentage of Ownership	Date Filed
Chloride Inc., a wholly owned subsidiary of Chloride Group Ltd. (England)	Chloride Connrex Corp. (Tampa, Fla.) (Del.) Common Stock - 499,473 shs. (Above shs. acquired pursuant to the Tender Offer. Chloride Group owns 1,316,500 shares (70%) of the outstanding shares)	8-30-74
Thyssen-Bornemisza Inc., a wholly owned subsidiary of Thyssen-Bornemisza Group N.V. (Netherlands)	Indian Head Inc. (New York City) (Del.) Common Stock - 5,511,200 shs.(90%) Common Stock - 34,982 shs. on exercise of Warrants (1,963,619 of above shs. were acquired from TBG. The balance of 3,547,581 shs. and the Warrants were acquired pursuant to the Tender Offer)	9-4-74
*Edmond de Rothschild California European Co.-Calrop, S.A. Lafayette Corp. (Luxembourg)	Bancal Tri-State Corp. (San Francisco, Calif.) (Del.) Common Stock - 800,100 shs.(24%) Common Stock - 50,000 shs. on exercise of a right under an agreement	9-6-74
*Ivaco Industries Ltd. (Canada)	Laclede Steel Co. (St. Louis, Mo.) (Del.) Common Stock - 227,480 shs.(6%)	9-9-74
*Schlesinger European Investments Ltd. (England)	Overseas Securities Co., Inc. (New York City) (N.Y.) Capital Stock - 129,728 shs.(92%)	9-10-74
*Superior Oil Co. Canadian Superior Oil Ltd. Superior Farming Co. (Canada) (U.S. controlled)	Tejon Ranch Co. (Lebec, Calif.) (Cal.) Common Stock - 130,460 shs.(10.4%)	9-13-74
Minerals and Resources Corp. Ltd. (Bermuda) controlled by Anglo American Corp, South Africa	Engelhard Minerals & Chemical Corp. (New York City) Common Stock - 8,112,995 shs.(30.5%) Preferred Stock - 122,878 shs.(20.7%) (ownership transferred from HD Development Ltd. (Lux.), a subsidiary of Anglo American, which purchased stock in 1972)	9-19-74

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Reporting Company or Individual	Issuer and Number of Shares and Percentage of Ownership	Date Filed
Academic Pension Plan of University of Alberta (Canada)	Great Western United Corp. (Denver, Colo.) (Del.) Common Stock - 107,700 shs. (5.1%) $1.88 Preferred Stock - 2,400 shs.	9-19-74
Denison Mines Ltd. (Canada)	Fibreboard Corp. (San Francisco Calif.) (Del.) Capital Stock - 250,000 shs. (7.8%)	9-23-74
*International Nickel Co. of Canada, Ltd. (Canada)	ESB Inc. (Philadelphia, Pa.) (Pa.) Common Stock - 5,415,096 shs. (97.1%) (Above shares were purchased pursuant to the Tender Offer by Inco Holdings, Inc., its wholly-owned subsidiary.	9-23-74
North American Philips Development Corp. (Netherlands Sub)	Magnavox Co. (Fort Wayne, Ind.) (Del.) Common Stock - 14,250,000 shs. (80%) (Above shares were purchased pursuant to the Tender Offer)	9-25-74
Covent North American Properties Ltd. (Canadian Sub. of English Corp.)	Landmark Land Company, Inc. (Oklahoma City, Okla.) (N.Y.) Common Stock - 721,000 shs. (22%)	9-27-74
*Ivaco Industries Ltd. (Canada)	Laclede Steel Co. (St.Louis, Mo.) (Del.) Common Stock - 244,180 shs. (6.4%)	9-27-74
Trade Development Bank Hldgs.S.A. (Luexembourg) Trade Development Bank (Switzerland) Trade Development Bank Internatl. Inc. (Panama) Safrabank S.A. (Panama)	Republic New York Corp. (New York City) (N.Y.) Common Stock - 1,665,599 shs. (53%) (Stock transferred between subsidiaries of owner)	9-30-74
Odin Shipping Ltd. (Bermuda) (Controlled by Danish national)	Atwood Oceanics, Inc. (Houston, Texas) (Tex.) Common Stock - 210,526 shs. (11.3%)	10-3-74
Raynard Sportswear, Ltd. (Hamlet Yuen of Hong Kong is its sole shareholder)	Don Sophisticates, Inc. (New York City) (N.Y.) Common Stock - 400,500 shs. (67%)	10-3-74

Reporting Company or Individual	Issuer and Number of Shares and Percentage of Ownership	Date Filed
*Edmond De Rothschild California European Co. Calrop, S.A. Lafayette Corp. (Luxembourg)	Bancal Tri-State Corp. (San Francisco, Calif.)(Del.) Common Stock - 875,600 shs. (27%)	10-3-74
*Hussel Holding AG (Switzerland) (wholly-owned sub. of German Corp.)	Micron Corp. (Salt Lake City, Utah) Common Stock - 1,635,000 shs. (51%) Common Stock - 100,000 shs. on exercise of Option	10-15-74
*North American Philips Development Corp. (Netherlands Sub.)	Magnavox Co. (Fort Wayne, Ind.) Common Stock - 14,967,966 shs.(84.1%) (Above shares were purchased pursuant to the Tender Offer)	10-29-74
*Denison Mines Ltd. (Canada)	Fibreboard Corp. (San Francisco Calif.) Common Stock - 277,600 shs. (8.6%)	10-30-74
*Edmond de Rothschild California European Co. Calrop, S.A. Lafayette Corp. (Luxembourg)	Bancal Tri-State Corp. (San Francisco, Calif.) (Del.) Common Stock - 876,200 shs. (26.6%)	11-4-74
Seamar (Holland) B.V. (Netherlands)	Bond Industries, Inc. (New York City) (Del.) Common Stock - 395,688 shs.(23%) Common Stock - 120,000 shs. on exercise of Option	11-11-74
*Ivaco Industries Ltd. (Canada)	Laclede Steel Co. (St. Louis,Mo.) (Del.) Common Stock - 269,180 shs.(7.1%)	11-15-74
*Japan International Technology Corp. (Sub. of Japanese Corp.)	IMC Magnetics Corp. (Westbury, N.Y.) (N.Y.) Common Stock - 117,400 shs.(18%)	11-18-74
Universe Tankships,Inc. (Liberia)	St. John D'el Rey Mining Co.,Ltd. (Cleveland, Ohio) Ordinary Shares - 751,047 shs. (18.86%)	11-21-74

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Reporting Company or Individual	Issuer and Number of Shares and Percentage of Ownership	Date Filed
*Compagnie de Saint-Gobain-Pont-a-Mousson (France)	Certain-teed Products Corp.(Md.) (Valley Forge, Pa.) Common Stock - 3,893,837 shs.(34.7%) Conv. Pfd. - 1,300,000 shs.	11-29-74
*Japan International Technology Corp. (Sub. of Japanese Corp.)	IMC Magnetics Corp. (Westbury, N.Y.) (N.Y.) Common Stock - 134,700 shs. (21%)	12-9-74
Hugo Mann (West Germany)	Fed-Mart Corp. (San Diego, Calif.) (Cal.) Common Stock - 640,000 shs. (51%) (Above shares to be purchased under an Agreement which also gives Mr. Mann an option to purchase any additional shares to maintain the 51% interest)	12-18-74
Bel-Fran Investments Ltd. (Canada) Bel-Cal Holdings Ltd. (Canada) Bel-Alta Holdings Ltd. (Canada)	Cordura Corp. (Chicago, Ill.) (Cal.) Common Stock - 235,700 shs. (4.1%)	1-9-75
*Japan International Technology Corp. (Sub. of Japanese Corp.)	IMC Magnetics Corp. (Westbury, N.Y.) (N.Y.) Common Stock - 176,400 shs.(27%) Common Stock - 200,000 shs. on conversion of Note	1-9-75
*Ivaco Industries Ltd. (Canada)	Laclede Steel Co. (St.Louis,Mo.) (Del.) Common Stock - 299,950 shs. (8%)	1-9-75
*Canada Development Corp. (Canadian Govt Corp.)	Texasgulf Inc. (New York City) (Tex.) Common Stock - 9,259,720 shs.(31%) (Ownership of above shares has been transferred to CDC Nederland B.V. (Netherlands), a wholly-owned subsidiary of CDC)	1-13-75

Reporting Company or Individual	Issuer and Number of Shares and Percentage of Ownership	Date Filed
Thomson-CSF (France)	Nucleonic Products Co., Inc. (Canoga Park, Calif.) Common Stock - 287,000 shs.	1-28-75
*Bowater Holdings, Inc., a wholly-owned subsidiary of Bowater Corp. Ltd. (England)	Kay Corp. (Alexandria, Va.) Common Stock - 3,935,313 shs. (72%)	1-30-75
*ABM Corp., a wholly-owned subsidiary of Boehringer Mannheim GmbH (Germany)	Bio-Dynamics, Inc. (Indianapolis, Ind.) Common Stock - 1,681,902 shs. (94%) (Above shares purchased pursuant to the Tender Offer which has been extended to February 21)	2-4-75
*Sanbil Handels Anstalt (Liechtenstein)	General Refractories Co. (Bala Cynwyd, Pa.) Common Stock - 274,600 shs.	2-14-75
Pharma-Investment Ltd. (Canada) (Boehringer Ingelheim GmbH (Germany) owns 74% of the voting power in Pharma)	Hexagon Laboratories, Inc. (Bronx, N.Y.) Common Stock - 485,601 shs. Convertible Debentures - $104,200 (Above securities, representing 86% of all shares have been purchased pursuant to the Tender Offer which has been extended to February 25)	2-18-75
*Creusot-Loire (France)	Alan Wood Steel Co. (Conshohocken, Pa.) Common Stock - 122,400 shs. (9.7%)	3-3-75
*ABM Corp. (Delaware) wholly-owned subsidiary of Boehringer. Mannheim Corp. (Germany)	Bio-Dynamics Inc. Common Stock 1,708,145 shs. (95%) (Above shares acquired pursuant to Tender Offer)	3-3-75
British Assets Trust Ltd. Second British Assets Trust Ltd. Independent Investment Co. Ltd. (U.K.)	Bio-Medical Sciences Inc. (Fairfield, N.J.) Common Stock 81,600 shs. (in exchange for 6 1/2% converible subordinated notes, 1-6-82 Series A)	3-4-75

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Reporting Company or Individual	Issuer and Number of Shares and Percentage of Ownership	Date Filed
Swiss Reinsurance Co. Swiss Reinsurance Co. Trust B North American Reinsurance Corporation North American Reassurance Company	Plantronics, Inc. (Santa Clara Calif.) Common Stock - 82,400 shs.	3-4-75
*Pharma-Investment Ltd. (Canada) (Germany)	Hexagon Laboratories, Inc. (Bronx, N.Y.) Common Stock - 527,235 shs. Convertible Debentures 112,600 (Above securities representing 93% of all shares purchased pursuant to tender offer of Feb. 25)	3-4-75
ESMIL BV (Netherlands) 50% owned by Hoesch, N.G. Germany	Envirotech Corp. (Menlo Park Calif.) Common Stock 1,188,000 shs.	3-6-75
Richard Gruner (Liechtenstein)	American Airlines New York, N.Y. Common Stock - 1,550,200 shs. (5%)	3-6-75
*Pharma-Investment Ltd. (Canada) (Germany)	Hexagon Laboratories Inc. (New York) Common Stock - 537,279 shs. (97%) Convertible Debentures - $114.700	3-17-75
*The Netherlands Insurance Co. N.V. subsidiary of Nationale Nadeslanden N.V. (Netherlands)	Wisconsin National Life Insurance Co. Common Stock 1,002,908 shs. (95%)	3-27-75
Haitian Equities Gilbert Pasquet Elsie Malebranche Jean Claude Kenol (Haiti)	Basic Food Industries, Inc. (Miami, Fla.) Common Stock 450,000 shs.	3-31-75
Trade Development Bank Hldgs. S.A. (Luxembourg) Trade Development Bank (Switzerland) Trade Development Bank Internatl. Inc. (Panama) Safrabank S.A. (Panama)	Republic New York Corp. (New York City) (N.Y.) Common Stock -1,748,899 shs.	3-30-74

Reporting Company or Individual	Issuer and Number of Shares and Percentage of Ownership	Date Filed
*Edmond de Rothschild California European Co. Caltrop S.A. Lafayette Corp. Luxembourg	Bancal Tri-State Corp. (San Francisco Calif. Common Stock 896,500 (27.2%)	4-4-75
Loblaw Companies Ltd. (Canada)	Loblaw Inc. (New York) Common Stock 2,835,582 (76.2%) (Tender offer made for balance of shares @ $6)	4-9-75
Loblaw Companies Ltd. (Canada)	National Tea Company (Illinois) Common Stock 4,650,679 (59.27%) (Tender offer made for 1,830,000 shares @ $7 (80%)	4-9-75
*Hugo Mann (Germany)	Fed-Mart Corp. (San Diego, Calif.) Common Stock - 800,000 (58.7%) (above shares may be purchased under tender offer and stock purchase agreement)	4-11-75
Carlos Bustamonte (Mexico)	Atlas Hotels Inc. (California) Common Stock 134,150 (10%)	4-14-75
*Fitzwilton Ltd. (Ireland)	National Mine Service Co. Common Stock 453,542 shs. (31%)	
*Thyssen-Bornemsza Inc. (Netherlands)	Indian Head Inc. (New York) Common Stock 5,549,718 (91%) Common Stock 35,082 on exercise of warrants	4-23-75

ATTACHMENT C

Form FPI-1 — U.S. DEPARTMENT OF THE TREASURY — OMB No. 048-S-74001

Schedule A.

REPORTING FORM FOR U.S. ISSUERS OF SECURITIES

BREAKDOWN OF FOREIGN OWNERSHIP IN U.S. STOCKS AND OTHER EQUITY INTERESTS, BY COUNTRY [1]

Name of reporter ____

Identify stock issue ____

E.I. number [ ]

Issue code number [ ]

CUSIP number [ ]

Total number of countries reported for this issue [ ]

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Foreign countries (1)	Country code No (2) Alpha	Numbers	Total (Columns (4) through (9)) (3) No. of holders (3a)	No. of shares (3b)	NUMBER OF SHARES HELD BY FOREIGN PERSONS AS OF 12/31/74 — INDIVIDUALS RESIDING ABROAD — U.S. nationals residing in foreign countries (4) No. of holders (4a)	No. of shares (4b)	Foreign nationals residing in foreign countries (5) No. of holders (5a)	No. of shares (5b)	ALL OTHER FOREIGN PERSONS — Official institutions (6) No. of holders (6a)	No. of shares (6b)	Banks, brokers and nominees (7) No. of holders (7a)	No. of shares (7b)	Investment cos., Insurance cos., pension funds & other employee benefit funds or trusts (8) No. of holders (8a)	No. of shares (8b)	Other business firms (9) No. of holders (9a)	No. of shares (9b)
Sample entries →	AA	00000	000,000	00,000,000	0000	00,000,000	0000	00,000,000	0000	00,000,000	0000	00,000,000	0000	00,000,000	0000	00,000,000
Grand total - All countries *(to appear on first page only)*																

[1] Exclude direct and indirect holdings in U.S. securities by foreign direct investors. A foreign direct investor is any foreign person owning 10% or more of the voting stock of the U.S. company. (See paragraph B.2.b(2) of the General Instructions.)

ATTACHMENT C (continued)

Form FPI-1 U.S. DEPARTMENT OF THE TREASURY

Schedule B.

OMB No. 048-S-74001

E.I. number

CUSIP number

Issue code number

Foreign currency code [2]

Total number of countries reported for this issue

Name of reporter: ______

Identify debt issue or obligation: ______

REPORTING FORM FOR U.S. ISSUERS OF SECURITIES

BREAKDOWN OF FOREIGN OWNERSHIP IN U.S. LONG-TERM DEBT OBLIGATIONS, BY COUNTRY[1]

(Give all amounts shown below in the currency of issue)

Foreign countries (1)	Country code No. (2)		FACE AMOUNT OF ISSUE HELD BY FOREIGN PERSONS AS OF 12/31/74													
			Total (Columns (4) through (9)) (3)		INDIVIDUALS RESIDING ABROAD				ALL OTHER FOREIGN PERSONS							
					U.S. nationals residing in foreign countries (4)		Foreign nationals residing in foreign countries (5)		Official institutions (6)		Banks, brokers and nominees (7)		Investment cos., insurance cos., pension funds & other employee benefit funds or trusts (8)		Other business firms (9)	
	Alpha	Numbers	No. of holders (3a)	Face amount of issue (3b)	No. of holders (4a)	Face amount of issue (4b)	No. of holders (5a)	Face amount of issue (5b)	No. of holders (6a)	Face amount of issue (6b)	No. of holders (7a)	Face amount of issue (7b)	No. of holders (8a)	Face amount of issue (8b)	No. of holders (9a)	Face amount of issue (9b)
Sample entries →	AA	00000	000,000	00,000,000	0000	00,000,000	0000	00,000,000	0000	00,000,000	0000	00,000,000	0000	00,000,000	0000	00,000,000
Grand total - All countries *(to appear on first page only)*																

[1]Exclude direct and indirect holdings in U.S. securities by foreign direct investors. A foreign direct investor is any foreign person owning 10% or more of the voting stock of the U.S. company. (See paragraph B.2.b(2) of the General Instructions.)

[2]Use country code number from Annex B of the General Instructions to identify foreign currency issue.

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

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FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE
THE SENATE FINANCE COMMITTEE
MAY 7, 1975

Mr. Chairman and Members of this Distinguished Committee:

I welcome this opportunity to appear before you this morning on a subject of timely and urgent concern: our capital investment needs for the future.

For several months, many economic policy makers in Washington have been preoccupied with the problems of ending the recession, slowing the rate of inflation and steering the nation back to a course of stable, durable economic growth. Today there are many signs that the economic slide is gradually decelerating, and we can be increasingly confident that we will be on the road to recovery before the end of this year.

As we emerge from the recession, it is especially important that we now begin to focus greater public attention on the longer-range problems of our country. While the process of recovery will require careful and vigilant management, we must be equally concerned whether the period of the recovery and beyond will bring sustained economic progress or a sorrowful repetition of the boom and bust cycles of the past.

Certainly there is no subject more central to our hopes for the future than our ability and our willingness to meet the capital investment needs of coming years. Those needs are impressively large, and they will demand a full-scale effort. In my testimony this morning, I want to draw upon an abundance of documentary evidence showing that the United States has not been keeping pace in its capital investments and that we must devote more of our resources to this purpose if we are to achieve our most basic economic dreams for the future. To summarize, the record shows that:

-- During the 1960s, the United States had the worst record of capital investment among the major industrialized nations of the Free World.

-- Correspondingly, our records of productivity growth and overall economic growth during this period were also among the lowest of the major industrialized nations.

-- As other nations have channeled relatively more of their resources into capital investment and have acquired more modern plants and equipment, they have eroded our competitive edge in world markets.

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-- Our record on capital investments reflects the heavy emphasis we are placing on personal consumption and government spending as opposed to savings and capital formation.

-- Our record also reflects a precipitous decline in corporate profits since the mid-1960s.

-- While the U.S. economy remains sufficiently large and dynamic to overcome our investment record of recent years, our future economic growth will be tied much more directly to the adequacy of our capital investments.

-- Estimates of future needs vary, but it is relatively clear that in coming years we will have to devote approximately three times as much money to capital investments as we have in the recent past.

-- It is an economic fact of life that increased productivity is the only way to increase our standard of living. For the sake of future economic growth -- jobs, real income and reasonable price stability -- the inescapable conclusion is that government policies must become more supportive of capital investment and that we must make a fundamental shift in our domestic policies away from continued growth in personal consumption and government spending and toward greater savings, capital formation and investment.

Some analysts have concluded that it will not be possible to meet our future capital investment needs. I disagree. I firmly believe that we are capable of achieving our basic investment goals, but I also believe that they represent one of the most formidable economic challenges of the decade ahead.

I. CAPITAL INVESTMENT EXPERIENCE

The beginning point for our consideration of capital investment -- and one that should be of keen concern to everyone -- is the pattern of economic growth during the decade of the 1960s. The average annual rate of real economic growth during that period for the twenty nations belonging to the Organization of Economic Cooperation and Development (OECD) ranged from a high of 11.1 percent for Japan, to a median of about 5 percent for Australia, the Netherlands and Norway, to a low of 2.8 percent for the United Kingdom. The United States during this time experienced an average growth rate of 4 percent a year -- 17th among the 20 nations (Table 1).

Of the many economic, political and social factors that influence economic growth rates, none is more important than the level of capital investment. Economists generally agree

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that the factors affecting growth include: (1) the accumulated base of capital goods; (2) the current pace of new capital investments; (3) the effective application of new technology; (4) the quality of the national labor force -- its education, training, discipline and commitment; (5) the infrastructure of transportation, communication, financial and service facilities; (6) access to industrial raw materials; (7) managerial skills; and (8) the organization of the economic system. The mix of these basic economic variables -- along with other specific factors not listed -- varies from country to country and changes over time. It is also possible to substitute one, or a combination, of these productivity variables for specific inadequacies. Most analysts agree, however, that a strong rate of new capital investment is required to generate sustained growth. In fact, the effectiveness of all of the other factors that determine productivity are heavily dependent upon the quantity and quality of capital goods made available by new investment.

The United States retains a position of economic leadership because it has been blessed over a long period of time with a favorable mix of all of the important economic variables, along with political stability and improving social mobility. For many years our advantageous ratio of capital to labor has been acknowledged as the basis of the remarkable rise of the U.S. economy. Even now spending for plant and equipment continues to increase and these outlays still exceed the amounts invested elsewhere because of the large size of the U.S. economy (Table 2). In 1974, gross private domestic fixed investment totaled $195.6 billion, up from $194.0 billion in 1973 and $131.7 billion in 1970. Investments in business structures and producers' durable equipment totaled $149.6 billion in 1974, up from $136.8 billion in 1973 and $100.6 billion in 1970.

Nonetheless, even though plant and equipment expenditures will continue in the future as the economy grows, it is unrealistic to assume that the historical patterns of investment and productivity will be adequate to meet the priorities of the future. And I certainly am not suggesting that we can fulfill every claim presented by society. The disappointing record of Federal deficits in fourteen of the last fifteen years ending with FY 1975 -- or forty out of the last forty-eight years -- and the unfortunate boom and bust pattern of economic performance over the past decade indicate that we have not been able to effectively identify and manage our national economic priorities. Some analysts have claimed that future economic growth will release unused resources to fulfill new claims against the national output. To the contrary, the intensity of claims for available resources will likely increase in the future.

The assertion that additional government spending programs can be added without disrupting the allocation of resources in the private sector has been refuted by the events of the past decade, particularly the increasing inflation pressures and shortages of materials and production capacity.

Comparative Rates of Investment

Recognizing the relatively low rate of U.S. economic growth in the 1960s, it is worthwhile to look now at the relative rate of capital investment in this country. Although the amounts of capital investment continue to increase in the United States and our capital-to-labor ratio is still relatively high, other nations during recent years have allocated a substantially larger share of their resources to new capital formation. Furthermore, the gap between the U.S. level of investment, measured as a share of national output, and the commitments of other leading industrial nations has increased. A study prepared by the Department of the Treasury indicates that total U.S. fixed investment as a share of national output during the time period 1960 through 1973 was 17.5 percent. The U.S. figure ranks last among a group of eleven major industrial nations; our investment rate was 7.2 percentage points below the average commitment of the entire group. When only nonresidential investment is considered the level of commitment is naturally lower for every nation but the relative position of the United States is not changed.

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Investment as Percent of
Real National Output 1960-73*

	Total Fixed**	Nonresidential Fixed
Japan	35.0	29.0
West Germany	25.8	20.0
France	24.5	18.2
Canada	21.8	17.4
Italy	20.5	14.4
United Kingdom	18.5	15.2
U.S.	17.5	13.6
11 OECD Countries	24.7	19.4

* OECD concepts of investment and national product. The OECD concept includes nondefense government outlays for machinery and eqipment in the private investment total which required special adjustment in the U.S. national accounts for comparability. National output is defined in this study as "gross domestic product," rather than the more familiar measure of gross national product, to conform with OECD definitions.

** Including residential.

Source: U.S. Department of the Treasury.

The reduced pace of capital investment in the U.S. economy has also been emphasized by Professor Paul W. McCracken, former Chairman of the Council of Economic Advisers and now Senior Consultant to the Department of the Treasury. Using historical figures, reported in constant dollars, for the amount of nonresidential capital formation per person added to the labor force, he estimates that commitments in the United States during the 1970s are 22 percent below the level reported in the 1956 to 1965 decade. In terms of business capital investment per worker, the United States still maintains a considerably higher capital to labor ratio than in Europe and Japan. However, our advantage has declined as other nations have increased their capital investments per worker. The Department of Commerce estimates that since 1960 the existing base of plant and equipment assets has nearly doubled in France and Germany and more than tripled in Japan. 1/ The cumulative total of such assets in the United States increased at most by about 50 percent during the same period.

Gross Nonresidential Fixed Investment
Per Person Added to Civilian Labor Force
(In 1958 dollars)

Period	Amount
1956 - 1960	$49,500
1961 - 1965	55,300
1966 - 1970	46,400
1971 - 1974	41,000*

*Estimate based on incomplete data for 1974

Source: Statement of Paul W. McCracken before the Committee on Ways and Means, January 29, 1975. Basic data from the Departments of Commerce and Labor.

Factors Influencing U.S. Rate of Capital Investment

In evaluating the relatively slower rate of capital investment in the United States, several moderating factors should be considered.

First, the unusually large size of the U.S. economy and its relatively advanced stage of development, including the accumulated total of previous capital investments, creates a different investment environment. In 1974 the U.S. national output was $1.4 trillion, which is approximately equal to 90 percent of the combined total for the nine countries in the European Economic Community and Japan. Having already created such an impressive productive capacity it is to be expected that our rate of additional growth might be lower than the development rates of other nations who are striving to achieve our relatively advanced level of economic activity.

1/ An Overview of Investment: The United States and Major Foreign Economies, International Economic Policy and Research Report, U.S. Department of Commerce, Domestic and International Business Administration, October 1974, p.9

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A second and even more important influence has been the historical priority placed on consumption within the U.S. economy. We are a consumption-oriented society and this pattern has been developing for several decades. The emphasis on consumption has undoubtedly caused much of the rapid development of the U.S. economy because it has created a strong demand for goods and services needed to sustain output, employment and investment. In 1974 personal consumption totaled $877.0 billion, or 63 percent of our gross national product; total government purchases of goods and services totaled $308.8 billion, or 22 percent; gross private domestic investment, which includes the change in inventories, was $208.9 billion, or 15 percent; and net exports of goods and services amounted to $2.0 billion or 0.1 percent of total national output. Personal and government consumption outlays have long dominated the GNP totals, and this pattern of economic activity is deeply ingrained in our society. As a result, despite our high per capita incomes, the accumulations of gross savings flows required for capital investment are lower in the United States than elsewhere. It is also important to note that the level of gross private savings in the United States has remained stable throughout the postwar era.

Average Annual Gross Savings Flows
As a Percent of Gross National Product
(Percent)

	1955-59	1960-64	1965-69	1970-74
Gross Private Saving	15.9	15.4	15.9	15.8
Personal saving	4.5	3.8	4.5	5.5
Undistributed corporate profits	3.4	2.8	3.1	2.8
Inventory valuation adjustment	-0.3	0.0	-0.3	-1.2
Capital consumption allowances	8.3	8.8	8.7	8.7
U.S. Government Surplus	-0.1	0.2	-0.2	-1.1
State and Local Government Surplus	-0.3	0.1	0.0	0.5

Source: Department of Commerce, Bureau of Economic Analysis

These figures are subject to differing interpretations. Some analysts have claimed that it will not be possible to attract enough savings to meet future investment needs. This negative conclusion assumes that the capital needed to increase plant and equipment.capcity will be preempted or diverted to meet the consumption preferences of the private and public sectors. I would hope that the severe output, inflation, unemployment and balance-of-payments distortions of the past decade would be a useful warning against such a result. It should be apparent from the experience of recent years that we must invest adequate funds in new plant and equipment -- as well as in education and training -- in order to increase our nation's productivity and thereby raise our standard of living. Failure to provide necessary productive capacity to meet the Nation's economic goals is certain to have undesirable effects upon our society over the long run.

Other analysts have used the same gross savings figures to claim that there will not be any particular strain in handling our future investment needs. They believe that as investors are provided with a sufficiently high return on their investments, they will increase savings to meet the higher demand for capital. This conclusion seems to be based on two questionable assumptions: (1) that the existing savings ratio of the past decade is adequate for both past and future capital investment needs; and, (2) that each sector in the economy can obtain its minimum investment needs within the total outlays financed.

I do not agree that past investment levels have been fully adequate. Experience has demonstrated that inflation and unemployment problems have been created in part by capacity shortages. Many of our current difficulties are the direct result of the energy and raw materials strains that developed in early 1974 and eventually contributed to our current recession and related unemployment. The continuous deterioration of our international trade balance during the 1960s, when the dollar was overvalued, was also at least partly the result of the loss of competitiveness for U.S. products and increased reliance on foreign sources of goods. As you will see in a moment, I think there is also clear evidence that in order to meet future needs, the Nation must increase its capital investment as a claim against national output. Unfortunately, specific investment needs have not been adequately fulfilled in many sectors of the economy, even though general outlays have increased. We must also be concerned about the capacity of our capital markets to provide adequate financing. Economists often assume that the supply of investment funds will automatically match the

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demand for capital if interest rates and equity yields are attractive. Our financial markets are very efficient in collecting savings and allocating the funds. However, we should be more sensitive to the disruptive impact of high interest rates. Even though financial markets may be functioning well in allocating the available capital, specific sectors of the economy may not be able to obtain the investment funds needed, particularly at interest rates they can afford. The periodic problem of providing adequate mortgage financing at reasonable interest rates is one example of the limitations within the markets. The difficulty in obtaining equity financing is another. Whether or not industry will be able to acquire the investment funds needed will be heavily influenced by future actions of the government. National policies cannot ignore financial realitites by diverting capital into deficit financing and disrupting the goals of stable monetary policy without inhibiting the necessary process of capital formation. The costs of capital and its availability for private sector needs are heavily dependent on these public fiscal and monetary actions. While the financial markets are very resilient and responsive to changing credit and equity needs, they are not entirely immune to the disruptive impact of government policies.

A third important factor affecting the pattern of U.S. investment compared with other nations is the relatively large share of total capital outlays we commit to the services category, which includes housing, government and other services. According to a study published by the Organization for Economic Cooperation and Development (OECD), the United States allocated 70 percent of its total investment to the services category during the 1969 to 1971 time period. The U.S. figure is significantly higher than that reported by the other five major industrial nations included in the study (Table 3). Accordingly, the U.S. share of investment committed to the manufacturing sector, 19.7 percent, was considerably lower than the figures reported by France (27.8 percent), West Germany (25.2 percent), Japan (26.8 percent), and the United Kingdom (23.8 percent). Our heavy investment in the services category tends, of course, to emphasize consumption and moderate the growth in productivity. This arrangement may satisfy immediate consumer preferences, but we must weigh those preferences against long-term concerns about domestic productivity and international competitiveness.

A fourth in luence on the pattern of capital investment in the United States is the relatively large share of our investment that must be used for replacement and modernization of existing facilities. It is estimated that 62 percent of U.S. capital investment during the time period 1960 to 1971 was used for replacement needs, compared to the United Kingdom, 61 percent; Canada, 52 percent; France, 54 percent; West Germany, 53 percent; and Japan, 31 percent. 2/ The divergent pattern reflects the advanced status of economic development in some nations and the postwar experience of Europe and Japan in restoring their devastated industrial facilities following World War II. The Department of Commerce estimates that 60 to 70 percent of the U.S. stock of plant and equipment has been added since 1960, compared to approximately 75 percent of the capital goods of West Germany and France and 85 percent of Japan's industrial capacity. It should be emphasized that this heavy replacement requirement does provide a continuing opportunity to introduce new technology into the U.S. economic system. Since the annual value of U.S. capital investment is so large, it cannot be assumed that the entire U.S. industrial system is technologically obsolete, even though some specific sectors have suffered a sharp competitive deterioration. Nevertheless, the otherwise imposing outlays for replacement and modernization do not add to the total productive capacity of our economy.

A fifth and final factor influencing the national rate of capital investment is the pattern of government policies. Government can affect investment either directly through the incentives it provides or indirectly through various tax and regulatory policies and its own pattern of spending.

A review of the diversified economic incentives available in other nations indicates the very active investment role played by many foreign governments. Basic industries are frequently controlled by the government with total, or at least dominant, public ownership. Special financial and operating assistance is also frequently provided for preferred private companies to assist their development if it is considered to be in the national interest. The United States has avoided most of the capital allocation and special incentive programs used in other countries. I strongly favor this private sector approach and believe that it has been a positive factor in the development of our economy.

There are some Federal programs which provide direct financial support through the Economic Development Administration, the Small Business Administration and 169 different government credit programs, but the major influence of Federal Government

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on capital investment comes through the Federal budget. Government budget decisions now represent approximately one-third of the total GNP and this figure will rise even higher if spending trends of the past twenty years are continued. The government also influences private sector activities by providing capital grants, research funding and other incentives which stimulate investment. For example, the FY 1976 budget prepared by the President calls for outlays of $4.6 billion on general science, space and technology programs, $2.2 billion on energy activities and $9.4 billion for environmental and natural resources. Part of these outlays will involve capital investment needs.

The Government is also exercising increased influence over private investment decisions through the growing number of safety, health and environmental standards. Precise estimates are difficult, but it has been estimated that during 1972, 8 percent of the textile industry's capital investments and 12 percent of the steel industry's investments were related to health and safety standards mandated by the government. While such standards may be highly desirable, we should recognize that these investments do not increase the Nation's total productive capacity.

Many State and local governments also provide special incentive programs to attract capital investment into specific geographical areas. Such incentives include capital grants, advantageous credit arrangements, relocation and manpower training grants, special site and building assistance, infrastructure investments, and preferred tax and utility arrangements. While such incentives have influenced the location of some facilities, the total amount of capital investment has probably not been increased.

The private sector continues to be the best means of increasing capital investment in the United States and our government has fortunately not attempted to control the pattern of such investments.

Negative Results of Inadequate Capital Investment

While the historical pattern of capital investment in the United States may satisfy our immediate goals, there are serious economic risks in having a slow rate of capital investment for an extended period of time. The emphasis on immediate consumption has occurred because American consumers have historically preferred to spend 91 percent of their disposable after-tax income. The government has basically supported this independence of choice although its tax and spending policies have unfortunately exercised an increasing influence on private decisions. But we must now question the future adequacy of past investment patterns if we are to adequately prepare for the economic future of our great nation.

Various studies have indicated the close relationship between capital investment and various measures of economic growth and productivity. A dynamic economy is needed to create jobs by applying new technology and expanding production capacity. A productive labor force is also necessary for producing goods and services to meet rising demands for an improved standard of living and as a means of holding down inflation. When productivity increases,the effects of rising wages are offset so that unit labor costs can be held down and prices are more stable. Inadequate capital investment also limits new job opportunities and creates unemployment. Specific examples of production capacity shortages became painfully apparent to the Cost of Living Council (COLC) as it administered the program of wage and price controls from August 1971 until June 1974. Recognizing the inflation pressures created by these numerous capacity constraints, the COLC followed a definite policy of requiring specific capital investment commitments from private industry as a basis for price decontrol decisions. The COLC also became very concerned about future inflation problems that could result from raw materials shortages and increasing capacity shortages in several basic industries as economic growth occurs. Unfortunately, productivity gains in the United States have been disappointing, particularly when compared with the experience of other leading nations.

<u>Productivity Growth, 1960-1973</u>

(Average Annual Rate)

	Gross Domestic Product per employed person	Manufacturing output per manhour
United States	2.1	3.3
Japan	9.2	10.5
West Germany	5.4	5.8
France	5.2	6.0
Canada	2.4	4.3
Italy	5.7	6.4
United Kingdom	2.8	4.0
11 OECD Nations	5.2*	6.1

* Average for 6 OECD countries listed.

Source: Department of the Treasury

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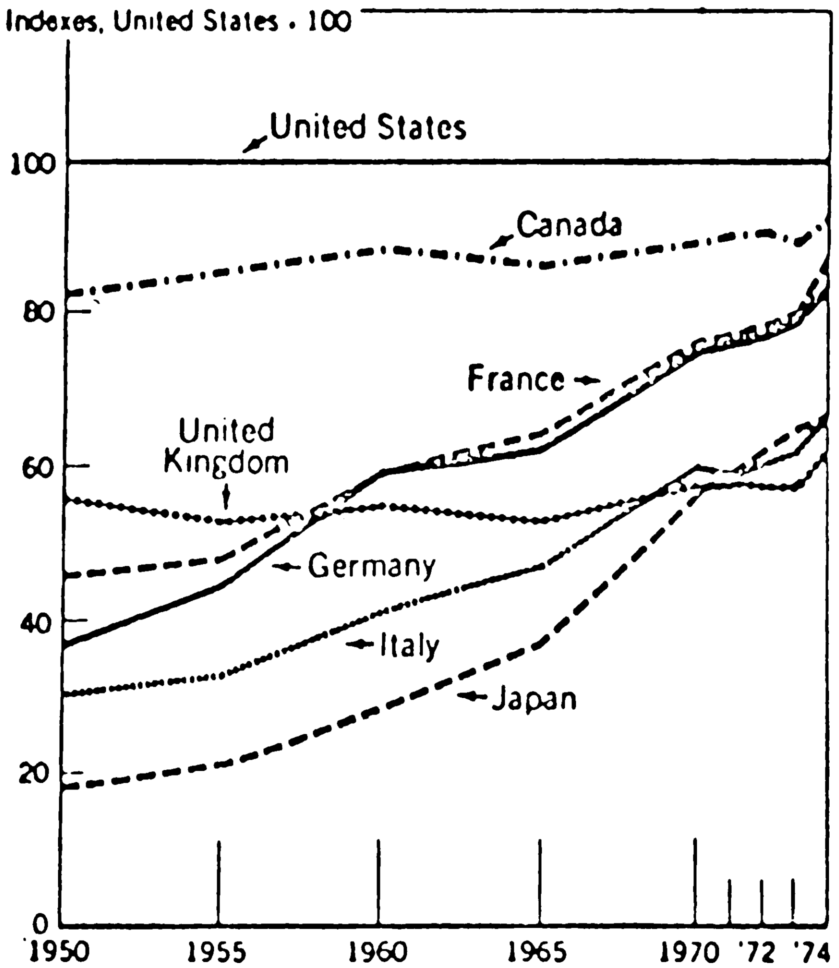
The rapid growth of the U.S. economy to its present size and the relatively low level of inflation until the late 1960's has been based on the creativity and productivity of the system. Americans have grately benefitted from this growth, not only in personal economic gains but in terms of national security and international leadership. Continued prosperity, however, cannot be taken for granted; it must be earned. We must be willing to allocate more of our resources to the future and fewer to satisfying immediate demands. This is a difficult concept for some to accept because they prefer current consumption. With so many needs still unsatisfied in a land of relative plenty, this feeling is understandable. Our ability to fulfill these needs will only be restricted, however, if we now fail to prepare for the future. The simple truism that we cannot consume more than we produce should be obvious, but we sometimes ignore it in setting national priorities. And we can no longer afford to ignore the fact that as the real output of other nations has increased more rapidly than our own, our competitive advantage has gradually been eroded.

Real Output per Employed Civilian
1950-'74



Source: Department of the Treasury.

II. FUTURE CAPITAL INVESTMENT REQUIREMENTS

Economic projections are always difficult, but estimating future capital needs is particularly uncertain at this time because costs and priorities continue to change rapidly. It is obvious, however, that future capital requirements will be enormous -- larger than anything we have ever faced before. Clearly we will need to increase the quantity and quality of housing; develop new energy resources; improve the quality of our environment; rehabilitate the existing transportation system and develop a better urban transportation system; continue the mechanization of agriculture; construct new office buildings, communications systems, medical facilities, schools and other facilities; and meet the massive needs for new plant and equipment. In all of these sectors we must not only replace and modernize existing facilities but also add new capacity, particularly in many of our most basic industries.

The Department of Commerce estimates that capital requirements for producers' durable equipment and nonresidential structures will total \$3.4 trillion during the 1974 to 1985 period. If annual outlays for residential construction, which have averaged \$50 billion during the past four years, are added to this figure, the total capital needs rise to well over \$4 trillion. Details of their estimate include:

Gross Private Domestic Nonresidential Fixed Investment
(billions of current dollars)

	1974	1985	Cumulative 1974-1985
Total producer's durable equipment	\$100.0	\$276.7	\$2,188.8
Nonresidential structures	54.7	151.3	1,197.3
	\$154.7	\$428.0	\$3,386.0

A similar study performed by the General Electric Company confirms the massive size of future capital requirements. Assuming a real GNP growth rate of 4 percent and an inflation rate of 5 percent, General Electric expects gross private domestic investment, including residential housing, to total \$4½ trillion over the 1974 to 1985 time period.

The General Electric and Commerce studies are consistent if housing outlays are added to the Department of Commerce totals. Both estimates are limited to private investment and exclude the large government expenditures required for roads, dams, government facilities, schools, pollution abatement outlays, and many other projects.

Assuming, then, that the cumulative investment needs between 1974 and 1985 will range from \$4 to \$4½ trillion, the point to remember is this: over the most recent period of the same length,

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1962 through 1973, our total outlays for capital investment in the United States were $1½ trillion. Thus, our capital investment needs in coming years are approximately three times the level of the recent past. That is perhaps our best measure of our challenge ahead.

Both of the studies I have mentioned are necessarily based on many uncertain projections and arbitrary assumptions about a continuing close relationship between investment and economic growth. But even if some of these assumptions prove to be erroneous -- as they will -- and new investment requirements arise -- as always happens -- the actual results will not materially change the following conclusions:

1. Capital requirements for gross private domestic investment will be in excess of $4 trillion during the 1974 to 1985 time period.

2. The future rate of inflation will be a crucial factor in determining the amount of future investment because it will influence both the price of assets acquired and the economic incentives for future investment.

3. The achievement of national capital investment goals is possible if we are willing to increase the share of national resources committed.

Energy Investment Requirements

One area of capital investment that is particularly critical for the future is energy. To achieve greater self sufficiency in energy, enormous capital investments will be required. We basically have two alternatives. The first one is to meet our increased energy investment requirements by reducing outlays in other sectors. While energy priorities are indeed important, it would be most unfortunate to disrupt the entire economic system in this way. A second -- and more desirable -- approach is to include these new requirements within an enlarged total investment goal. Our purpose should not be to redistribute the economic pie, but to continue enlarging it so that everyone will have a bigger share.

Recognizing that the ultimate cost of energy investment needs will be influenced by many variables, it appears that capital requirements over the next decade will total about $1 trillion stated in current dollars to include the effects of inflation. Energy investments will comprise an important share of the total capital requirements discussed above but their financing is manageable if they are given a high priority as part of a comprehensive national energy program. The specific amounts to be spent in each category will depend upon the energy policies adopted and dynamic developments within the economy. Nevertheless, the range of possible needs is indicated in four separate studies prepared by the Federal Energy Administration, National Petroleum Council, National Academy of Engineering and Arthur D. Little, Inc. All four studies are stated in constant 1973 dollars to make them comparable. If necessary adjustments are made for potential inflation and the increased needs that have been identified since the studies were prepared the resulting capital needs expressed in current dollars, will approximate $1 trillion between now and 1985.

Comparison of Capital Requirements Estimates*: Total Dollars

Cumulative 1975 - 1985

(Billions of 1973 Dollars)

	NPC (a)	NAE (b)	ADL (c)	FEA Accelerated Supply
Oil and Gas (including refining)	133	149	122	98.4
Coal	8	18	6	11.9
Synthetic Fuels	10	19	6	.6
Nuclear	7	93	84	138.5
Electric Power Plants (excluding nuclear)	137	53	43	60.3
Electric Transmission	42	125	90	116.2
Transportation	43	-	43	25.5(d)
Other (e)	-	-	8	2.2
Total	380	457	396	454

(a) U.S. Energy Outlook, a summary report of the National Petroleum Council, Washington, D.C., December 1972 (Average of four supply cases)

(b) U.S. Energy Prospects, An Engineering Viewpoint, National Academy of Engineering, Washington, D.C., 1974

(c) Arthur D. Little estimates based upon an energy conservation scenario.

(d) Does not include investments required for tanker fleets, but does include $5.5 billion targeted for Trans-Alaska oil pipeline.

(e) Solar, Geothermal, Municipal Waste Treatment Plants, and Shale Oil.

Source: Federal Energy Administration, Project Independence Report, November 1974, p. 282.

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The overall impact of energy requirements is summarized in a special report issued by the Chase-Manhattan Bank in March of 1975. The Energy Economics Division of the bank is noted for the quality of its special reports. Over twenty years ago that division predicted that an energy shortage would develop in the United States if certain policy adjustments were not made. One of the major concerns of these reports over the years has been the chronic underinvestment in energy resources which became apparent in the late 1950's. The conclusion of the most recent Chase Manhattan Bank report is particularly perceptive:

"Although the relationship between investment and supply of energy is an elementary principle that applies to any and all sources of primary energy, it is nevertheless one that is not well understood. In fact, the lack of understanding was responsible for the incredibly unenlightened regulation and many other political actions about the world that had the two-pronged effect of preventing the generation of sufficient capital funds and discouraging the investment of money that actually was available. And the current energy shortage is the consequence. Yet, even today, after so much damage has been done, there is still a widespread failure to recognize the relationship between investment and supply. Instead, two distinctly different attitudes generally prevail. Many apparently continue to believe they can somehow again have enough energy without paying all the associated costs. Others, obviously, are resigned to the prospect of a permanent shortage and see conservation as the only avenue of partial relief. Neither attitude is realistic, of course. The world still does not lack basic energy resources remaining to be developed. And it is conceivable that eventually there can again be enough to serve all its needs but only if the necessary investment is made first. If it is not, a permanent shortage will indeed be the certain outcome."

Source: The Chase Manhattan Bank, Energy Economics Division, "How Much Oil -- How Much Investment," A Special Petroleum Report, March 1975.

The report goes on to emphasize -- correctly, I believe -- that a permanent shortage is intolerable because it would so constrict total economic growth that the growth in labor force -- even at the more moderate pace expected in the 1980s -- could not be absorbed. The resulting unemployment problems would cause severe economic problems in addition to threatening our political and social stability.

Future investments in energy resources will naturally be determined by total demand over time. Estimates have already changed dramatically as costs have risen and conservation efforts have increased. However, these developments are so recent that it is difficult to predict future demand until a national energy policy is agreed upon and the various energy incentives and disincentives are identified. The Chase Manhattan analysts had originally projected a continued growth in the world's demand for energy at an average annual rate of 5 percent which is the same pace as recorded from 1955 to 1970. Admitting the unusual degree of uncertainty, the bank has now lowered its projection to an annual rate of 4.2 percent with a strong warning that energy forecasts have historically erred on the conservative side. Oil consumption is expected to grow at a more rapid annual rate of 4.5 percent over the 1970 to 1985 period, resulting in a cumulative consumption of 375 billion barrels, nearly two and a half times more than in the 1955 to 1970 period. North America is expected to remain the world's largest consumer of total energy and oil, but the growth rate for this area may be lower because of a slower population growth and our potential for conservation savings.

Turning to the financial requirements for the petroleum industry, Chase Manhattan Bank estimates a world-wide need for $400 billion to find 600 billion barrels of oil between 1970 and 1985. This is more than two and a half times the actual investment for this purpose during the 1955 to 1970 period. An additional $370 billion will be needed between 1970 and 1985 for world-wide development of refineries and processing facilities, tankers, pipelines, environmental equipment and the necessary marketing facilities. The total of $770 billion is nearly three times the actual commitment in the preceding fifteen year period. Finally, another $400 billion will be required for other investments, payment of dividends, debt repayments and additions to working capital.

The total financial needs of the world's petroleum industry from 1970 to 1985 are estimated by the bank to be $1.2 trillion stated in constant 1970 dollars. Inflation will of course increase the dollar amounts required. If inflation averages 5 percent over the time period, the world petroleum industry financial needs would rise from $1.2 to $1.6 trillion. With 10 percent inflation, the figure would increase to $2.2 trillion.

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With regard to financing these world-wide petroleum industry requirements, the bank estimates the following distribution of potential sources based on the $1.2 trillion constant dollar estimate: (1) Communist nations, $225 billion; (2) new capital market issues, $240 billion; (3) capital recovery allowances, $260 billion; and (4) profits, $460 billion. These figures must be adjusted upward according to whatever rate of inflation occurs.

This brief listing of sources obviously conceals many difficult financial challenges. The world's capital markets will already be absorbing large public and private financing demands. Government policies may reduce capital recovery allowances permitted for computing tax liabilities. And the assumption that oil industry profits will be large enough to cover such a large share of the total is questionable. Commenting on the public's reaction to oil industry profits in 1973 and 1974 after fifteen years of average performance, the bank report states:

> "As emphasized earlier, there cannot possibly be enough energy of any kind without adequate investment. And investment cannot be adequate without sufficient profits. But profits are labeled excessive and restraints are proposed without apparent consideration of the need for profits as a source of investment funds. As indicated earlier, the industry will need at least $845 billion of profits between 1970 and 1985 if the world experiences a 10 percent rate of inflation. But in the first four years of the period the industry generated no more than $60 billion of profits, only 7 percent of the required amount. Even in the highly unlikely event of no further inflation, the $60 billion would represent but 13 percent of the industry's total needs for the fifteen year period."

III. GOVERNMENT POLICIES

While our economy is capable of financing its large private capital investment requirements, our success in meeting that goal is heavily dependent upon the shape of government policies. It is absolutely imperative that government policies become more supportive. A continuation of the severe fiscal and monetary distortions of the past decade would undoubtedly prevent the achievement of our basic goals. Inflation must be controlled, and the government must avoid disrupting the capital markets if the private sector is to obtain the financing required. In fact, public officials must balance the Federal budget over time and record occasional surpluses in order to free up capital resources to fulfill existing private investment claims. Instead of reducing private investment to release resources for government social programs, we should concentrate on balancing the budget over time so that the future flow of savings is not diverted away from private investment.

Unfortunately, the Federal Government has reported a deficit in fourteen out of the past fifteen years ending with FY 1975. During the single decade FY 1966 through FY 1974, the cumulative Federal deficits totaled $103 billion. Net borrowings for supporting over one hundred "off-budget" Federal programs totaled another $137 billion during that decade. As a result, the Federal Government withdrew one quarter of a trillion dollars out of the capital markets. But this record is only a prelude to our present situation when Treasury financing requirements will total about $75 billion in calendar year 1975 in order to finance the massive Federal deficits expected. While much of the current deficit results from the recession, which has caused tax revenue losses, increased unemployment compensation benefits and other outlays resulting from the "automatic stabilizers" used to fight recession, a review of the budget details indicates that traditional spending programs are also rising rapidly and new programs are proposed almost every day. As indicated in Table 4, the spending figures included in the original budget submitted by the President last February called for outlays of $313.4 billion in Federal spending in FY 1975 and $349.4 billion in FY 1976. Recent projections by the Office of Management and Budget indicate that FY 1975 outlays will be $324.2 billion, an increase of 20.8 percent over FY 1974 outlays. It should be obvious that government spending-- both for temporary stimulus and traditional programs -- is increasing at a rate that is creating serious resource allocation problems far into the future and that these pressures will not conveniently disappear as we gradually emerge from the recession later this year.

Looking beyond the recession problems of 1975, we seem to face the dilemma of having an apparently irresistible force of growing government spending meeting the immovable object of future capital investment requirements. But we should no longer consider the growth of government spending and related deficits to be an irresistible force. To do so will inevitably lead to even more serious economic problems of unemployment, reduced real gains in our national standard-of-living and even more inflation resulting from inadequate physical capacity and reduced productivity. We must recognize the basic reality that when we apply too much pressure on our capacity to produce goods and services, the inevitable result is inflation and shortages. The underlying growth trends of the U.S. economy will continue to provide for further economic progress, but we cannot realistically expect to satisfy every new claim within our economy by simply shifting resources from the private to the public sector. Adding new government commitments is not feasible if the total productive capacity of the economy is exceeded.

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This guideline has been frequently violated as total demand has increased too rapidly for the economic system to absorb. When this happens the economy begins a boom and bust sequence with severe inflation and unemployment distortions. Nor can we wish away the problem by claiming that there is plenty of slack in the 1975 recession and that we can ignore problems of overheating the economy until later years. The escalation of government spending levels summarized in Table 4 has already seriously eroded our future fiscal flexibility and the lagged impact of current spending decisions will directly affect the future. In short, if we are to achieve our crucial goal of adding at least $4 trillion of private capital investment by 1985, we must first establish more moderate and sustainable fiscal and monetary policies.

Tax Policies

Federal tax policies affect capital investment decisions by determining the after-tax earnings available for investment and by establishing incentives or disincentives for future investment. An OECD study of tax policies indicates that total government tax collections in the United States during the years 1968, 1969, and 1970 were a smaller proportion of the gross national product than in most other industrial nations. The U.S. figure of 27.9 percent for those three years was above that of Switzerland (21.5) and Japan (19.4 percent) but below the levels reported for many European nations, ranging from Italy (30.1 percent) to Sweden (43.0 percent). Since the study was completed, the United States undertook major tax policy changes in 1971 and in March of 1975, but the comparative relationships have probably not changed very much. There is, however, a major difference in the distribution of the tax burden. As indicated in Table 5, only 18.1 percent of the U.S. tax revenues in 1971 were provided by taxes on the consumption of goods and services. Other industrial nations relied much more heavily on consumption taxes: France, 34.8 percent; West Germany, 28.1 percent; United Kingom, 26.6 percent; Canada, 28.7 percent; and Japan 20.7 percent.

The definite tilt toward personal and corporate income taxes in the United States is consistent with our historical preference for immediate consumption. It is not my purpose to critize this historical priority, but the future requirements for capital investment indicate that tax policies should be reviewed. Just such a review has been underway in the Department of the Treasury in preparing for the tax law changes completed last month and in anticipation of a joint review with the Congress in the coming months of possible tax reform initiatives. I do not want to make any specific recommendations this morning because we are still working on our analysis and recommendations. We will want to review the options with Congress before specific actions are suggested. I will merely refer to some of the policy areas that need to be reviewed:

1. Corporate income tax -- These taxes directly influence the cash flow available for investment. The rate has vacillated slightly above or below the 50 percent level for many years. While a reduction in the rate of taxation would probably be the most straight-forward approach to enhancing investment incentives, any change would represent a major shift in policy and would require extensive Congressional consideration. The Tax Reduction Act of 1975 did increase the corporate surtax exemption from $25,000 to $50,000 and decrease the "normal" tax from 22 to 20 percent on the first $25,000 of earnings. These changes, however, do not affect the tax impact on the great bulk of corporate earnings subject to the corporate surtax.

As part of this on-going review of tax policies we also need to consider the influence on investment of our two-tier system of corporate taxation in which income is taxed once at the corporate level and again at the shareholder level. This approach discriminates against corporate investors generally and small equity investors particularly. An individual in the 20 percent tax bracket in effect pays 48 percent at the corporate level and then an additional 20 percent on what is left for a total tax burden of 58.4 percent, or nearly three times his individual rate. If the individual is in the 70 percent bracket, he pays 48 percent at the corporate level and then an additional 70 percent on what is left. His total tax burden is 84.4 percent. If the same business could be conducted in a noncorporate form, the investors would pay only 20 and 70 percent respectively.

Our tax system puts a great penalty on companies that must incorporate. Companies that do incorporate are those that have large capital needs that must be raised from many persons. We should keep in mind that our system of taxation bears more heavily on corporations than do the tax systems of almost every other major industrial nation. In the last few years our major trading partners have largely eliminated the classical two-tiered system of corporate taxation. Through a variety of mechanisms they have adopted systems of "integrating" the personal and individual income taxes so that the double taxation element is radically lessened.

2. Investment Tax Credit (ITC) - Business firms have strongly supported the ITC as a major stimulus to additional capital investment. Empirical studies do indicate that the amount of investment in machinery and equipment has increased when the ITC has been put into effect and has declined when it is suspended. Some critics believe, however, that the ITC simply influenced the timing and types of investment rather than increasing the total amount. Whichever view is correct, there was strong support for the investment tax credit provision in the Tax Reduction Act of 1975 which increased the credit to 10 percent for two years and removed the lower percentage limitation for utilities. Unfortunately, the investment tax

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credit has had an uncertain status once it was initiated January 1, 1962 and businessmen are justifiably concerned about the stability of an incentive which has already been removed twice and then reinstated.

3. Depreciation guidelines - The amount of capital recovery charges permitted for tax purposes also influences the after-tax earnings available for private investment. In 1954 the Internal Revenue Tax Code was changed to permit depreciation charges to be made on an accelerated basis. The official guidelines were again liberalized in 1962, and in 1971 the Asset Depreciation Range (ADR) -- along with the investment tax credit -- was added to the regulations.

The ADR rules allow companies to select a time period for calculating depreciation within a range of 20 percent above or below the Treasury guideline which specifies useful life periods for various assets. Despite these adjustments, American businesses complain that they have a competitive disadvantage compared with some other nations. The figures summarized in Table 6 do indicate that American firms using both the ADR and the investment tax redit can recover 55 percent of the value of new investments during the first three years. By comparison, the allowances in other nations are as follows: Canada, 100 percent; France, 90.3 percent; Japan, 63.9 percent; United Kingdom, 100 percent; and West Germany, 49.6 percent. It should be added that the U.S. position becomes more comparable by the seventh year. Various business groups have proposed further liberalization, such as a wider ADR percentage, but further consideration should be part of the general tax reform analysis involving the Department of the Treasury and the Congress.

4. Special Incentives - The government is frequently asked to provide special incentives in the form of reduced or delayed taxes, accelerated depreciation schedules, capital grants or other benefits to enchance the rate of return on capital investments. While such incentives are usually requested on the basis that they will contribute to the achievement of some national priority, it is usually difficult to justify such special treatment. When special advantages are given to a specific industry or geographical region, others become relatively disadvantaged and it is very difficult for government authorities to determine which claims should be favored, particularly in a dynamic economy where priorities can change rapidly. While there may be a few specific situations where the government should intervene in the allocation of resources which is now handled efficiently by the private markets, my overwhelming preference is to avoid the economic distortions which are found to occur.

Corporate Profitability

The final area of concern that I want to address here is the future outlook for corporate profitability. Such profits are, of course, the major incentive for additional investment and an important source of funds for financing outlays, along with various external sources. In a fundamental sense profits are the driving force of our system -- the engine that pulls the economic train for the 85 percent of our work force still in the private sector -- and they are just as much a "cost" of doing business as payments to workers, supplies of materials and services, taxes, etc.

Unfortunately, corporate profits are too often thought of as an unnecessary claim required by greedy businessmen rather than the basic incentive in qur economic system. Public opinion surveys in the 1930s and in more recent years are consistent in indicating that the general public thinks that profits account for approximately 28 percent of the sales dollar. The fact is, however, that profits account for approximately 5 cents out of each dollar of sales. Actual earnings of business firms are thus far below what the general public -- and some Members of Congress -- perceive them to be. In fact, corporate profits will have to improve substantially in order to provide the necessary incentives and to make the necessary contribution to futute investment outlays. My concern is that the negative attitudes about profits held by many Americans might become an unfortunate part of public policy. We must avoid legislation and regulation that is punitive of profits honestly earned. The result could only be that capital formation would be inhibited, and the real purchasing power of wage earners would rise more slowly. We must always be alert to the fact that profits translate into jobs, higher wages, and an increased standard of living for all of our people.

One important reason why there is so much misunderstanding about corporate profitability is that our accounting system has not yet been able to adapt to the disruptive effects of the double-digit rate of inflation we have suffered. Inflation hurts investment by increasing the prices of new assets and eroding the purchasing power of corporate earnings. Taxes must be paid on reported earnings even though these figures are exaggerated by inventory valuation profits and the inadequacy of capital recovery allowances, which are based on the historical costs of existing assets rather than the inflated outlays required for new assets. Inflation also disrupts investment by discouraging savings once the general public recognizes that the purchasing power of such commitments is eroded so quickly.

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Fortunately, the Department of Commerce publishes figures which attempt to adjust for the distorting effects of inventory valuation, the effects of accelerated depreciation methods and the understatement of capital recovery allowances based on historical cost asset values. The results of these adjustments are summarized in Table 7. These figures clearly indicate that adjusted after-tax profits of nonfinancial corporations as a share of national income and of the value of corporate output are far lower than the public opinion polls would suggest. Furthermore, from a peak in 1965 through 1973 the relative share of corporate after-tax profits has declined by one-half according to both measures. The same discouraging pattern results when these adjusted earnings figures are compared to the replacement value of capital assets to determine the rate of return on invested capital. From a peak rate of return of 10 percent. In 1965 this measure declined to 5.4 percent in 1970 before recovering to a level of 6.1 percent in 1973. The sluggish economy of 1974 and 1975 will further reduce this figure. It is not unfair to say that the United States has been and remains today in a profits depression. Since the incentive for new investments ultimately depends upon sustaining an attractive rate of return on capital, this trend is particularly disturbing.

It should be emphasized that all of these comparisons have been stated in current dollars which conceals the negative impact of inflation on the purchasing power of retained earnings. Professor John Lintner of Harvard University recently reported that the retained earnings of U.S. nonfinancial corporations were 77 percent lower in 1973 than in 1965 if the figures are converted into constant dollars in order to remove the effects of inflation and if adjustments are made to remove the effects of inventory valuation gains and the underreporting of depreciation changes based on historical costs. Without these adjustments, reported retained earnings in 1973 were 46 percent above the 1965 figure. 3/

Because business firms cannot use "phantom" earnings to acquire capital assets, the future pace of private investment will depend upon the growth of real profits. The government can influence the economic incentives needed to stimulate investment through its tax policies, regulatory and administrative practices and various spending programs, but the private investment decision ultimately depends upon the rate of return expected and

3/Lintner, John, "Savings and Investment for Future Growth: 1975-6 and Beyond," presented at a colloquium on "Answers to Inflation and Recession: Economic Policies for a Modern Society," conducted by The Conference Board, Washington, D.C., April 8-9, 1975, p.15.

the availability of adequate financing at a reasonable cost. Government officials and the general public must recognize the basic importance of corporate profitability and the disruptive effects of excessive government spending pressures -- pressures which create deficit financing requirements that take precedence over private investment needs in the capital markets. This problem has not received adequate attention.

IV. SUMMARY

As we strive to end the most severe economic recession in our postwar experience, my deep and abiding concern about the future adequacy of capital investment will perhaps appear to be ill-timed to some analysists. There is extensive slack in our economy with an unemployment rate near 9 percent and reduced rates of plant capacity utilization in many specific industries. The economic slide, however, will not last much longer, and we will again be reporting real growth gains before the end of the year. As the pace of economic activity accelerates, we will likely rediscover shortages of labor and production capacity. In fact, some industries still have high plant capacity utilization ratios, and many types of skilled labor will be difficult to find even in the early stages of economic recovery. In 1971 it was widely believed that extensive slack existed but the economy was again operating at a very high rate of capacity by 1972 and shortages and explosive inflation soon occurred.

Our statistics on plant capacity have always been uncertain measures, and current economic conditions have motivated the Department of Commerce to give top priority to a comprehensive survey of production capacity as a basis for preparing more meaningful estimates of plant capacity utilization rates. It is ironic that such a fundamental factor in preparing national economic policies has been based on such uncertain economic statistics.

Dr. Pierre Rinfret, President of a well known economic consulting firm, Rinfret Boston Associates, Inc., has published an impressive study of the national production capacity which indicates that our current government statistics grossly underestimate the rate of capacity utilization in American industry and that there is virtually no reserve capacity. His study estimates that the capacity utilization rate for manufacturing industries was 86.6 percent in 1974 (Table 8) a figure well above the government's estimate for 1974, of 78.9 percent. It should also be emphasized that the concept of operating at 100 percent of physical capacity is misleading. Over the last fifteen years the government figures indicate that manufacturing capacity utilization has averaged only 83 percent despite some periods of intense output. The highest figure reported by the government during these fifteen years was 91.9 percent for 1966. Most companies need to preserve some reserve capacity to handle unexpected output requirements and to substitute for operating assets which need repairs or replacement. Therefore, the existing government figures do not accurately measure the realistic level of capacity utilization.

Looking beyond the current problems of recession and sustaining an economic recovery, the additional capital investment of at least $4 trillion from 1974 to 1985 represents a major challenge to the future growth of our economy. We must also give careful attention to the problems of specific industries in attracting needed investment for balanced growth. I am confident that these basic goals can be accomplished. But the desired results will require government policies which will moderate inflation and balance the Federal budget over time in order to avoid diverting needed capital away from investment and into the financing of chronic government deficits. A continuation of the fiscal and monetary distortions of the past decade will only frustrate our capital investment efforts and lead to still more serious economic problems in the future.

Thank you.

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TABLE 1

Average Annual Rate of Change in Real Growth for Member Nations of OECD, 1960-70

(percent)

Japan	11.1
Greece	7.6
Portugal	6.3
Yugoslavia	6.7
France	5.8
Italy	5.6
Canada	5.2
Finland	5.2
Australia	5.1
Netherlands	5.1
Norway	5.0
Belgium	4.9
Denmark	4.9
West Germany	4.8
Austria	4.8
Iceland	4.3
Ireland	4.0
U.S.	4.0
Luxembourg	3.3
United Kingdom	2.8

Source: Organization for Economic Development and Cooperation.

TABLE 2

Gross Private Domestic Fixed Investment, 1950-1974 (Billions of dollars) 333

PART A. Nominal Dollars

Year	Total	Nonresidential Structures and Producers' Durable Equipment	Residential Structures
1950	$47.3	27.9	19.4
1951	49.0	31.8	17.2
1952	48.8	31.6	17.2
1953	52.1	34.2	18.0
1954	53.3	33.6	19.7
1955	61.4	38.1	23.3
1956	65.3	43.7	21.6
1957	66.5	46.4	20.2
1958	62.4	41.6	20.8
1959	70.5	45.1	25.5
1960	71.3	48.4	22.8
1961	69.7	47.0	22.6
1962	77.0	51.7	25.3
1963	81.3	54.3	27.0
1964	88.2	61.1	27.1
1965	98.5	71.3	27.2
1966	106.6	81.6	25.0
1967	108.4	83.3	25.1
1968	118.9	88.8	30.1
1969	131.1	98.5	32.6
1970	131.7	100.6	31.2
1971	147.4	104.6	42.8
1972	170.8	116.8	54.0
1973	194.0	136.8	57.2
1974p	195.6	149.6	46.0

PART B. Constant 1958 Dollars

Year	Total	Nonresidential Structures and Producers' Durable Equipment	Residential Structures
1950	61.0	37.5	23.5
1951	59.0	39.6	19.5
1952	57.2	38.3	18.9
1953	60.2	40.7	19.6
1954	61.4	39.6	21.7
1955	69.0	43.9	25.1
1956	69.5	47.3	22.2
1957	67.6	47.4	20.2
1958	62.4	41.6	20.8
1959	68.8	44.1	24.7
1960	68.9	47.1	21.9
1961	67.0	45.5	21.6
1962	73.4	49.7	23.8
1963	76.7	51.9	24.8
1964	81.9	57.8	24.2
1965	90.1	66.3	23.8
1966	95.4	74.1	21.3
1967	93.5	73.2	20.4
1968	98.8	75.6	23.2
1969	103.8	80.1	23.7
1970	99.5	77.2	22.2
1971	105.8	76.7	29.1
1972	118.0	83.7	34.3
1973	127.3	94.4	32.9
1974p	118.1	94.1	24.0

Source: Department of Commerce, Bureau of Economic Analysis

TABLE 3

Output and Investment by Sector
1969-1971 Averages (Current price percents)

	United States	France	Germany	United Kingdom	Canada	Japan
PARTITION A			Sector Percentage of Total Output:			
Agriculture	3.0	5.9	3.2	2.6	3.9	7.3*
Mining	1.6	0.8	2.2	1.4	3.4	0.9
Manufacturing	30.3	45.3	50.4	33.5	26.6	43.0
Utilities	2.3	1.8	2.3	2.8	2.4	2.0
General Services	62.8	46.2	41.9	59.7	63.7	46.8
(Dwellings)	(5.4)	(4.5)	(3.8)	(2.3)	(3.3)	(NA)
(Government)	(14.7)	(8.8)	(9.4)	(10.1)	(14.0)	(3.1)
(Other Services)	(42.7)	(32.9)	(28.7)	(47.3)	(46.4)	(NA)
Total	100	100	100	100	100	100
			Sector Percentage of Total Investment:			
Agriculture	3.8	4.6	5.3**	2.6	5.5	5.9
Mining	1.0	.7	1.3	1.5	7.5	.9
Manufacturing	19.7	27.8	25.2	23.8	16.6	26.8
Utilities	5.2	3.9	5.0	8.6	9.4	3.9
General Services	70.3	63.0	63.2	63.5	61.0	62.5
(Dwellings***)	(19.9)	(26.3)	(22.2)	(15.1)	(21.5)	(17.9)
(Government)	(20.4)	(12.8)	(9.9)	(15.9)	(17.9)	(24.9)
(Other Services)	(30.0)	(23.9)	(31.1)	(32.5)	(21.6)	(19.7)
Total	100	100	100	100	100	100
PARTITION B			Sector Ratios: Investment Percentages Divided by Output Percentages			
Agriculture	1.3	0.8	1.7	1.0	1.4	0.8
Mining	0.6	0.9	0.6	1.1	2.2	1.0
Manufacturing	0.7	0.6	0.5	0.7	0.6	0.6
Utilities	2.3	2.2	2.2	3.1	3.9	2.0
General Services	1.1	1.4	1.5	1.1	1.0	1.3
(Dwellings)	(3.7)	(5.8)	(5.8)	(6.6)	(6.5)	(NA)
(Government)	(1.9)	(1.5)	(1.1)	(1.6)	(1.3)	(8.0)
(Other Services)	(0.7)	(0.7)	(1.1)	(0.7)	(0.5)	(NA)

Source: OECD, National Accounts of OECD Countries, 1960-71.

* Output averages of Japan are for 1969-70

** Investment averages of Germany are for 1967-68.

*** Investment in owner-occupied dwellings. For Canada, France and the United Kingdom the figure is from residential investment, which differs slightly from the former category.

TABLE 4

FEDERAL BUDGETS

CHANGES IN THE UNIFIED BUDGET OUTLAYS

BY FISCAL YEAR, 1961-1976
(dollars in billions)

Fiscal Year over Preceding Year	Federal Outlays	Dollar Increase	Percentage Increase	Surplus or Deficit
1961	$ 97.8	$ 5.6	6.1	-3.4
1962	106.8	9.0	9.2	-7.1
1963	111.3	4.5	4.2	-4.8
1964	118.6	7.3	6.1	-5.9
1965	118.4	-0.2	--	-1.6
1966	134.7	16.3	13.8	-3.8
1967	158.3	23.6	17.5	-8.7
1968	178.8	20.5	13.0	-25.2
1969	184.5	5.7	3.2	+3.2
1970	196.6	12.1	6.6	-2.8
1971	211.4	14.8	7.5	-23.0
1972	231.9	20.5	9.7	-23.2
1973	246.5	14.6	6.3	-14.3
1974	268.4	21.9	8.8	-3.5
1975 (est.)*	313.4	45.0	16.8	-34.7
1975 (est.)**	324.2	55.8	20.8	-42.2

* Last official budget estimates published February 3, 1975.

** May estimate of OMB as to expected FY 1975 outlays and most recent, May , Department of Treasury FY 1975 receipts.

Source: Economic Report of the President, February 1975, Table C-64, p.324, for years 1961 through 1974.

TABLE 5

Comparison of General Tax Revenue Sources, 1971

Tax Revenue by Type	United States Value ($ millions)	United States % of Total	France Value (Francs millions)	France % of Total	Germany Value (DM millions)	Germany % of Total	United Kingdom Value (Pounds millions)	United Kingdom % of Total	Canada Value (C $ millions)	Canada % of Total	Japan Value (Yen millions)	Japan % of Total
Corporate Income & Profit 1/	30234	10.4%	18747	5.8%	11655	4.5%	1558	7.8%	3080	10.2%	2977	18.8%
Household Income & Profit 1/	98176	33.6	32492	10.1	70295	26.9	6668	33.2	10221	33.9	3802	24.0
Consumption Taxes 2/	52698	18.1	112139	34.8	73425	28.1	5340	26.6	8660	28.7	3289	20.7
Social Security Contributions	60286	20.7	134802	41.9	88430	33.8	2828	14.1	2463	8.2	3174	20.0
Other Taxes	50301	17.2	23916	7.4	17655	6.7	3685	18.3	5710	19.0	2612	16.5
Total	291695	100.0%	322096	100.0%	261460	100.0%	20079	100.0%	30134	100.0%	15854	100.0%

Comparison Excluding Social Security Distributions

Tax Revenue by Type	United States Value	United States % of Total	France Value	France % of Total	Germany Value	Germany % of Total	United Kingdom Value	United Kingdom % of Total	Canada Value	Canada % of Total	Japan Value	Japan % of Total
Corporate Income & Profit 1/		13.1%		10.0%		6.8%		9.0%		11.1%		23.5%
Household Income & Profit 1/		42.4		17.3		40.6		38.6		37.0		30.0
Consumption Taxes 2/		22.8		59.9		42.4		31.0		31.3		25.9
Other Taxes		21.7		12.8		10.2		21.4		20.6		20.6
Total	231409	100.0%	187294	100.0%	173030	100.0%	17251	100.0%	27671	100.0%	12680	100.0%

1/ Includes capital gains.

2/ Defined as taxes levied on transactions in goods and services on the basis of such intrinsic characteristics as value, weight, strength, etc. The source document provides further elaboration concerning tax category definitions.

SOURCE: Revenue Statistics of OECD Member Countries 1965-1971, OECD.

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TABLE 6

Comparative Cost Recovery Allowances for Industrial Machinery and Equipment

Country	Representative Cost-Recovery Period (years)	First Taxable Year	First 3 Taxable Years	First 7 Taxable Years
Canada	2 a/	50.0	100.0	100.0
France	8 b/	31.3	90.3	100.0 c/
Japan	11 d/	37.1 e/	63.9	88.1
United Kingdom	1	100.0	100.0	100.0
Western Germany	9 f/	16.7 g/	49.6	88.8 h/
United States:				
with investment credit but without ADR (Accelerated Depreciation Range)	13 i/	21.7 j/	47.9	80.1
without either investment credit or ADR	13 i/	7.7	33.9	66.1
with both investment credit and ADR	10-1/2 i/ k/	23.5 j/	54.7	88.5

a/ Beginning May 1972 machinery and equipment acquired for manufacturing or processing of goods in Canada could be written off over two years (50 percent per year).

b/ 250 percent declining balance method multiplied by a factor of 2 to give effect to multiple shift operations.

c/ Method changed to straight line in fourth taxable year. Straight line rate applied to original cost in such year.

d/ Modified double declining balance method; 18.9 percent per Japanese Government rate table multiplied by a factor of 1.28 to give effect to multiple shift operations.

e/ Includes special first year allowance of 25 percent; allowance reduces recoverable base cost in second and succeeding taxable years.

f/ The average cost recovery period for machinery and equipment in Western Germany is 8 to 10 years to which additional allowances are permitted for multiple shift operations: 25 percent of allowance for two-shift operations and 50 percent of allowance for three-shift operations. Allowances may be further increased when plant is located in certain areas such as Berlin, areas bordering on iron curtain countries, and undeveloped areas.

(TABLE 6)

f/ continued

Cost recovery allowances based on an average cost recovery period of 9 years. The double declining balance method is used. A 25 percent additional allowance for two-shift operations is taken into account beginning with the fifth year when the method is changed to straight line. The corporate depreciation rate thus computed is slightly over the maximum 20 percent rate permitted on a declining balance method to reflect that:

(A) The straight line method produces more depreciation than does the double declining balance method for certain short-lived assets; and

(B) Items of machinery and equipment costing under U.S. $200 can be expensed.

No other incentives have been taken into account.

g/ Full year allowance in first taxable year for assets acquired in first half of such year; half year allowance for assets acquired in second half.

h/ Method changed to straight line in fifth taxable year.

i/ Double declining balance method.

j/ Includes 14 percent allowance equivalent to 7 percent investment credit at effective 50 percent income tax rate. Credit does not reduce recoverable base cost.

k/ 13-year recovery period reduced by 20 percent and rounded to nearest one-half year.

SOURCE: Statement of Arthur Anderson and Company, before the Committee on Ways and Means, U.S. House of Representatives, April 16, 1973.

TABLE 7

DOMESTIC PROFITS OF NONFINANCIAL CORPORATIONS, REPORTED AND ADJUSTED, 1950-1973
(Billions of dollars)

Year	Nonfinancial domestic profits of nonfinancial corporations	Adjustments: For inventory profits or losses	Adjustments: To standardize depreciation method 1/	Adjustments: To standardize depreciation on replacement cost basis 2/	Adjusted domestic profits of nonfinancial corporations	Tax liability	Adjusted after-tax profits of domestic nonfinancial corporations	National Income	Adjusted after-tax profits of domestic corporations as percent of national income	Gross product originating in nonfinancial corporations	Adjusted after-tax profits of nonfinancial corporations as percent of gross product originating in nonfinancial corporations
1950	38.5	-5.0	-0.4	-3.6	29.5	16.7	12.8	241.1	5.3	151.7	8.4
1951	39.1	-1.2	-0.2	-4.4	33.4	21.0	12.3	278.0	4.4	174.3	7.1
1952	33.8	1.0	0.0	-4.6	30.2	17.8	12.4	291.4	4.3	182.0	6.8
1953	34.9	-1.0	0.6	-4.3	30.2	18.5	11.7	304.7	3.8	194.7	6.0
1954	32.1	-0.3	1.5	-4.1	29.2	15.7	13.5	303.1	4.4	191.6	6.9
1955	42.0	-1.7	2.7	-4.2	39.0	19.8	19.2	331.0	5.7	216.3	8.8
1956	41.8	-2.7	2.9	-5.1	36.8	19.8	17.0	350.8	4.9	231.2	7.4
1957	39.8	-1.5	3.3	-5.7	35.8	18.9	16.9	366.1	4.6	241.9	7.0
1958	33.7	-0.3	3.2	-5.6	30.9	16.3	14.6	367.8	4.0	236.0	6.3
1959	43.2	-0.5	3.5	-5.5	40.7	20.8	19.9	400.0	5.0	263.7	7.6
1960	40.1	0.2	3.4	-5.1	38.6	19.5	19.1	414.5	4.6	273.1	6.9
1961	40.3	-0.1	3.1	-4.5	38.8	19.8	19.0	427.3	4.4	278.4	6.8
1962	44.7	0.3	5.3	-4.1	46.2	20.9	25.3	457.7	5.5	302.8	8.4
1963	49.1	-0.5	5.2	-3.7	50.1	22.9	27.2	481.9	5.6	320.0	8.5
1964	55.8	-0.5	5.2	-3.5	57.0	24.3	32.7	518.1	6.3	346.0	9.4
1965	65.8	-1.7	5.7	-3.8	66.0	27.6	38.4	564.3	6.8	377.6	10.2
1966	71.2	-1.8	5.9	-4.2	71.2	30.1	41.1	620.6	6.6	413.0	9.9
1967	66.2	-1.1	6.0	-4.8	66.3	28.4	37.9	653.6	5.8	430.8	8.8
1968	72.4	-3.3	6.3	-5.4	70.0	34.0	36.0	711.1	5.0	469.9	7.6
1969	68.0	-5.1	7.4	-7.8	62.5	33.7	28.8	766.0	3.8	504.3	5.7
1970	55.7	-4.8	7.6	-9.1	49.5	27.6	21.9	800.5	2.7	519.1	4.2
1971	63.2	-4.9	8.2	-10.1	56.4	29.8	26.6	857.7	3.1	555.1	4.8
1972	76.3	-7.0	9.4	-11.4	67.3	33.4	33.9	946.5	3.6	614.3	5.5
1973	95.8	-17.6	10.2	-12.5	75.9	40.7	35.2	1065.6	3.3	684.3	5.1

1/ The adjustment to standardize depreciation method is equal to the difference between tax depreciation and depreciation calculated assuming a straight-line depreciation formula and 85% of the Internal Revenue Service's 1942 edition of Bulletin F service lives.

2/ The adjustment to put depreciation on replacement cost basis is equal to the difference between depreciation as calculated on the assumptions stated in the preceding note and as calculated using the same assumptions but on a current rather than historical cost basis. Numbers in this and following table may not add because of rounding.

Source: Department of Commerce, Bureau of Economic Analysis

TABLE 8

CAPACITY UTILIZATION: March 1975

Industry	Utilization Rate	Is this level of operation higher, lower, or about the same as in 1974? (Percent Distribution) Higher	Lower	Same
All Industries*	84.5	13.2	45.0	41.7
Manufacturing	86.6	14.2	51.3	34.4
Nonmanufacturing*	78.6	10.5	28.1	61.4
Manufacturing	86.6	14.2	51.3	34.4
Durable Goods	86.6	12.8	50.0	37.2
Primary Metals	89.7	8.7	39.1	52.2
Iron & Steel	90.5	11.8	23.5	64.7
Nonferrous Metals	88.0	0.0	83.3	16.7
Electrical Machinery	87.2	50.0	0.0	50.0
Nonelectrical Machinery	94.5	15.0	40.0	45.0
Transportation Equipment	75.3	23.5	58.8	17.6
Motor Vehicles & Parts	79.2	11.1	77.8	11.1
Aerospace	67.2	42.9	42.9	14.3
Stone, Clay & Glass	77.7	0.0	72.7	27.3
Other Durable Goods	85.7	0.0	72.7	27.3
Nondurable Goods	86.7	16.2	52.9	30.9
Food & Beverage	89.2	23.5	17.6	58.8
Textiles	72.5	0.0	100.0	0
Paper	87.9	0.0	80.0	20.0
Chemicals	82.3	33.3	50.0	16.7
Petroleum	89.7	22.2	22.2	55.6
Rubber	80.4	0.0	100.0	0.0
Other Nondurable Goods	82.1	14.3	57.1	28.6
Nonmanufacturing*	78.6	10.5	28.1	61.4
Mining	94.8	0.0	0.0	100.0
Railroad	87.1	0.0	75.0	25.0
Air Transportation	81.0	0.0	66.7	33.3
Other Transportation	89.4	0.0	50.0	50.0
Public Utilities	76.6	12.5	22.5	65.0
Electric	74.3	12.5	18.8	68.8
Gas & Other	86.0	12.5	37.5	50.0
Commercial & Other	78.0	16.7	16.7	66.7

* *Excludes Communication.*

Source: 1975 Capital Investment Surveys; Rinfret Boston Associates, Inc. March 1975, Perspective--5

GPO 890-208

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

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FOR IMMEDIATE RELEASE May 7, 1975

RESULTS OF AUCTION OF 7-YEAR TREASURY NOTES

The Treasury has accepted $1.5 billion of the $3.9 billion of tenders received from the public for the 7-year notes auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	7.96% 1/
Highest yield	8.02%
Average yield	8.00%

The interest rate on the notes will be 8%. At the 8% rate, the above yields result in the following prices:

Low-yield price	100.212
High-yield price	99.894
Average-yield price	100.000

The $1.5 billion of accepted tenders includes 71 % of the amount of notes bid for at the highest yield and $0.3 billion of noncompetitive tenders accepted at the average yield.

In addition, $1.2 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 $53,000

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FOR IMMEDIATE RELEASE

ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
TO THE
AMERICAN SOCIETY OF BUSINESS WRITERS
MAY 7, 1975

Mr. Rowen, Members of the Society of American Business writers, and distinguished guests:

I welcome this opportunity to meet again with you and to talk about the subject of continuing concern to all of us: the state of our economy.

As you will recall, the Administration started out early this year with essentially three economic goals, all of which were interrelated:

-- First, to end the recession;

-- Second, to reduce the rate of inflation; and,

-- Third, to achieve greater self sufficiency in energy and reduce our vulnerability to foreign disruptions of our energy supplies.

With four months of the year now behind us, it is apparent--and I know that you have written about this almost to the point of exhaustion--that we have made encouraging progress on two of those fronts.

Ten days ago I returned from an extended trip around the world that enabled me to speak with finance ministers and several heads of state on a wide range of economic issues. One of those meetings was in Paris where I conferred with the finance ministers from the OECD Nations of Western Europe and Japan. It was the near unanimous view among those ministers that the Western world is nearing the end of the current recessionary cycle.

Here in the United States, there are solid grounds for believing that as much as 75 per cent of the recession is already behind us. With an audience as knowledgeable as this one, I can be brief in addressing this matter.

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In my view, two factors have been especially important in bringing us close to the end of the recession. One has been the rapid liquidation of inventories, which reached a record level in the first quarter of this year. The importance of this liquidation process is that in many industries sales are moving ahead more rapidly than production. As that continues, we can expect an increase in production in order to meet demand. And as that happens, of course, we will be entering upon the recovery.

The inventory liquidation reflects another factor of equal importance: the turnaround in retail sales. Even apart from the influence of price rebates on auto sales, retail sales rose by a total of 3-1/2 per cent in the first quarter of this year and appear to have increased a bit further in April.

There was also encouraging news in the employment figures released last Friday. While the rate of unemployment rose to 8.9 per cent, the highest level of the post-war period, the increase was a small one and--more importantly--April also brought the first increase in overall employment in half a year. There has also been a slight reduction in the rate of job layoffs, which has a crucial impact not only on unemployment but also upon public confidence.

There are several other signs that are also pointing in the direction of recovery:

-- As monetary policy has become more expansive and inflation has subsided, short-term interest rates have fallen and funds have begun flowing back into the thrift institutions. This sets the necessary precondition for an upturn in the hard-hit housing industry.

-- The reduction in the rate of inflation should also bring a significant increase in real earnings, which will help to increase consumer purchasing.

-- Surveys already show that consumer confidence is perking up.

-- And there has been a definite air of optimism in the stock market, where the Dow Jones has risen by some 35 per cent since its low point in 1974.

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In addition to these developments within the private sector, the Government has also taken several positive steps to assist the forces of recovery. As I mentioned, the Federal Reserve has already eased monetary conditions substantially and Board Chairman Arthur Burns has indicated that the Fed will continue to support the recovery while avoiding excessive stimulation. At the same time, the Congress has passed and the President has signed the biggest tax cut in our history. Combined with a large Federal deficit, the tax cut will give a strong boost to the economy.

I am not suggesting that prosperity is at hand. During the coming months, much of the economic news will continue to be bleak, registering perhaps the last statistical expressions of the recession. I do suggest, however, that the economy is now providing mounting evidence that the recession will bottom out during the middle months of the year, quite possibly before mid-year. Before the end of the year, we will definitely be on the road to recovery. Thus, we are making considerable headway in achieving our first economic goal of ending the recession.

On the second economic front--inflation--we have made even more progress--more, in fact, than anyone thought possible this quickly. The wholesale price index has dropped four months in a row, and its effects are already showing up in the consumer price index. By the end of this year, the overall rate of inflation should be in the neighborhood of 6 per cent.

On the third front--energy--I regret to say that progress has been painfully slow. Frank Zarb observed earlier this week that we are more vulnerable now to foreign oil disruptions than we were during the embargo, and I must say that I agree with that observation. If recent trends prevail, we will be dependent on foreign nations for more than half of our oil before the end of this decade. We cannot afford prolonged delays in attacking this problem. The President has set forth a sound, progressive program which would mobilize the forces of the marketplace to encourage conservation and simultaneously develop our own resources. While disagreements continue to exist with the legislative branch, we are working closely with the Congress and we remain hopeful that a national energy policy can be hammered out. In the final analysis, however, if the Congress does not act soon, the President will have no choice but to exert his own personal leadership once again by exercising the full powers of his office.

The Shape of Recovery

Assuming that we can work out a reasonable agreement on energy between the Congress and the Administration--and I am still optimistic on that score--the most pressing economic question now before us is what shape the recovery will take. Will we bounce back vigorously? Can we sustain a steady, upward movement of the economy? Or will we begin climbing only to undertake a sorrowful repetition of the boom-and-bust cycle of the past?

The time has come, I believe, to begin taking a longer view toward our economic policies. In recent months, we have been preoccupied with the immediate problems of fighting inflation and then with combating both inflation and recession. As we begin to emerge from the thick of battle, we must finally break the habit of resorting to short-term palliatives at the expense of long-term gains and instead take those steps which will correct the deep-seated imbalances in our economy and overcome the continuing scourge of inflation. I cannot overemphasize that the inflationary policies of the past are the chief culprit in creating our economic problems of today, and more than anything else, the threat of inflation remains our most fundamental long-term economic challenge. With both the recession and inflation now receding, we have a golden opportunity now to shape our policies to meet our long-term needs, and it would be a tragic mistake to pass it by.

The concern that I have expressed on several occasions is that we will become overly impatient with the pace of the recovery and that enormous political pressures will be generated to speed it up through highly stimulative fiscal and monetary policies. Increasingly, we hear from some Members of the Congress that our first priority should be to end the recession as quickly as possible and that we should postpone worrying about the risk of new inflation until next year or later.

I strongly disagree with that view, and I have argued as forcefully as I can that those are precisely the policies that led us into this thicket. Does it make any sense to spend our way out of this recession if we know that we are running a high risk of creating even more inflation and a more devastating recession in the future?

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To me, the answer to that question is self-evident. In order to avoid new errors in economic policy, we must finally be willing to pay the price of old ones.

Since my warnings about the impact of huge deficits on the private capital markets have been the subject of considerable attention and debate in the press, I would like to try to set the argument in perspective.

What I have said is that deficits in the range of $50 to $60 billion a year will create some strains in our financial markets, but they should be manageable. However, as I have emphasized--and as I shall continue to stress as long as the danger exists--deficits in the magnitude of $80 to $100 billion would be clearly excessive and dangerous. And in my talks with financial leaders around the country, I find that most of them agree with that view.

In an ordinary recession, large-scale Federal borrowing can be accommodated in the private markets because private demands for funds are slack. In this recession, however, demands for funds are higher than we would otherwise expect. The effects of inflation are one of the prime reasons for this. Corporate borrowing also remains high because of the illiquidity and poor debt structure of our financial and non-financial institutions. Some corporations are also borrowing now because they are increasingly fearful of the inflation that would result if the Congress refused to stay within reasonable fiscal units. In addition, State and local borrowing remains high because of their strained fiscal positions. As a result of all of these factors, we are already experiencing some difficulties in the capital markets and interest rates have not declined as far as they normally would during a recession.

The real danger, however, will arise not this year but next when the recovery will take hold and we will have a rising tide of private and public demands for funds. It is well to remember that while our recession is 75 percent over, the borrowing to finance our deficits is only 25 percent completed. Based on the President's budget and current enactments, we expect that the Treasury will need to borrow some $75 billion in funds this calendar year--a billion and a half dollars a week. In 1976, if the outlay totals projected by the House Budget Committee are an accurate projection and if there is an extension of major tax provisions, our borrowing needs next year could reach $84 billion.

As the recovery takes hold, it should be apparent that deficits of the $80 to $100 billion range could create a vicious competition for funds between the Federal Government and private borrowers.

Because the Federal Government always stands at the head of the line in the private money markets, that kind of competition could well disrupt the economic recovery that is now getting underway and ultimately lead to greater economic problems in the future. Interest rates could rise again, impeding or aborting a recovery in the critical housing industry. Prime borrowers are already paying a high rate of interest. Even higher interest rates would create severe difficulties for them and would crowd out many small businessmen and borrowers who are not in higher-rated categories.

In addition, such Government borrowing would further encroach on private demands for capital investment. As I testified before the Senate Finance Committee this morning, there is no greater long-range need within our economy than to shift our domestic priorities toward greater savings and capital formation and away from so much personal consumption and government spending. During the next few years, in order to replace existing plant and equipment and to meet our goals in energy, environmental improvements, transportation, housing, and in many other fields, our capital investments must be three times as large as those of recent years. Those investments translate into higher levels of productivity, into more jobs, and into a higher standard of living for all of our people. Clearly, if we impose large Federal demands upon the private sector we are preempting the critical needs for capital investment.

The immediate impact of huge Federal demands during a period of recovery would depend, of course, upon the monetary policy of the Federal Reserve. Indeed, monetary policy will continue to be a critical element in shaping our economic prospects both now and in the future. If we create too much competition for funds, interest rates will remain above desired levels even if the Federal Reserve pursues a moderate policy. The other alternative is that the Federal Reserve might seek to accommodate the enormous borrowing requirements of the Federal Government, as well as private demands, by creating an excessive growth in money and credit. That approach might temporarily ease the problem of financing the large Government deficits and the recovery, but the consequences of that action would soon catch up with us in the form of a reaccelerated inflation followed by a new recession and higher unemployment. This alternative, then, would have highly undesirable results, and it seems clear that we would be far wiser to avoid policy decisions which would force us to make such a Hobson's choice.

As Secretary of the Treasury and chief financial officer of the United States, it is my duty to warn of the injuries that could be inflicted on our financial and economic system by policies that I believe to be misguided. This is the course that I intend to pursue so long as the dangers exist, just as Arthur Burns and others are doing. Let me emphasize that I am

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not predicting that these events will transpire, but it is essential that we be aware of the jeopardy in which we would place our hopes for recovery if we adopt excessive fiscal and monetary policies. Let me also add that I have been heartened by the recent debates on this matter within the Congress and by the efforts to impose a ceiling on the size of our deficits. There is growing awareness of the dangers that we face, and I am hopeful that that awareness will be translated into sound policies for the future.

Policies for the Future

What policies, then, should we follow in trying to steer the nation toward a steady, durable recovery?

First and foremost, we must continue to support the forces of economic recovery so that we can end the hardships of unemployment and restricted growth. In warming up the economy, however, we must be equally careful not to overheat it. We must firmly resist the policies, as tempting as they are, of being overly stimulative in the fiscal and monetary areas. That will mean a slower period of recovery than we would like, but we are only guaranteeing more trouble for ourselves if we decide once again to take a short cut.

Second, as we regain our prosperity, we must restore much greater discipline to our fiscal and monetary affairs. Instead of an unbroken string of Federal deficits, we should begin to pursue budget surpluses in good years so that we can free up more funds for capital investment.

Third, and this is a theme you will hear increasingly in the future, we must lift the dead hand of governmental regulation from the many areas where it smothers economic incentives and growth. Reforms are clearly needed in the regulation of the energy industry, transportation and many other critical sectors in our society.

Fourth, as I mentioned earlier, we must make a basic shift in our domestic policies so that we place less emphasis upon consumption and government spending and more upon savings, investment and capital formation. It is an economic fact of life that increased productivity is the only way to increase our standard of living.

Finally, as I have stressed time and again, we must begin to place more reliance on ourselves and the free enterprise system and less upon 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 rediscover how much can be accomplished by private enterprise and by men and women who are free to determine their own destinies.

I know that some of you agree with me; some of you do not but believe that we ought to pursue other goals. I am not here today to ask that you support my positions, but in closing these remarks, I would like to ask that we continue to work together so that the choices for the future of our economy are clearly presented to the American people. That is the highest responsibility we share together.

Thank you.

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Contact: Robert E. Harper
964-5775

FOR IMMEDIATE RELEASE MAY 8, 1975

TREASURY SECRETARY SIMON NAMES EDWARD L. PATTON
U. S. SAVINGS BONDS CHAIRMAN FOR ALASKA

Edward L. Patton, President, Alyeska Pipeline Service Co., Anchorage, is appointed Volunteer State Chairman for the Savings Bonds Program in Alaska 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 the state. He succeeds Fred D. Chiei, Deputy Administrator, Federal Energy Administration, Anchorage, who receives the Treasury Department "Award of Merit".

Patton is a native of Newport News, Va. He was graduated from the Georgia Institute of Technology in 1938, with a BS degree in Chemical Engineering. After graduation, he joined an affiliate of Standard Oil (New Jersey) -- now Exxon -- in Baton Rouge, La., working on several engineering assignments before going on active duty with the Navy in 1941. From 1941 to 1946, Patton served as commanding officer of a number of antisubmarine and escort ships in the Carribbean, North Atlantic and Pacific.

After the war, he returned to Exxon in Baton Rouge and progressed through a number of management positions before transferring to Exxon's Norwegian affiliate to help in the construction of a new refinery. He returned to the United States in 1964 as an adviser for Exxon operations in the Mediterranean, Middle East and Far East. In 1966, he was transferred to Exxon's chief domestic affiliate to assume responsibility for the construction and operation of a new refinery complex in Benicia, Calif. Patton assumed his present post in August 1970, upon the formation of Alyeska.

He and his wife, Dorothy, have twin daughters -- Judith, now living in Atlanta, and Laura, attending the University of Washington, Seattle.

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For information on submitting tenders: TELEPHONE WO 4-2604

FOR IMMEDIATE RELEASE May 8, 1975

TREASURY TO AUCTION $2.0 BILLION OF NOTES

The Treasury will auction to the public under competitive and noncompetitive bidding up to $2.0 billion of 2-year notes. The coupon rate for the notes will be determined after tenders are allotted. 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 of foreign and international monetary authorities.

The notes will be Treasury Notes of Series I-1977 dated May 27, 1975, due May 31, 1977 (CUSIP No. 912827 EN 8) with interest payable on a semiannual basis on November 30, 1975, May 31 and November 30, 1976, and May 31, 1977. They will be issued in registered and bearer form in denominations of $5,000, $10,000, $100,000 and $1,000,000, and they will be available for issue in book-entry form.

Payment for the notes must be made on May 27, 1975. Payment may not be made through tax and loan accounts. Definitive notes in bearer form will be delivered on or about June 4, 1975. Purchasers of bearer notes may elect to receive interim certificates on May 27, which shall be bearer securities exchangeable at face value for Treasury Notes of Series I-1977 when available.

Tenders will be received up to 1:30 p.m., Eastern Daylight Saving time, Wednesday, May 14, 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 Tuesday, May 13. Each tender must be in the amount of $5,000 or a multiple thereof, and all tenders must state the yield desired, if a competitive tender, or the term "noncompetitive", if a noncompetitive tender. 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.

Competitive tenders 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 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 100.000 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, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $500,000

(OVER)

or less will be accepted in full at the average price of accepted competitive tenders, which price will be 100.000 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 notes with their tenders in order to meet the time limits pertaining to checks as hereinafter set forth. Allotment notices will not be sent to bidders who submit noncompetitive tenders.

Payment for accepted tenders must be completed on or before Tuesday, May 27, 1975, at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt in cash, in other funds immediately available to the Treasury by May 27, 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) Wednesday, May 21, 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 the case of the Treasury, or (2) Monday, May 19, 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 notes allotted will be subject to forfeiture to the United States.

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FOR IMMEDIATE RELEASE May 8, 1975

RESULTS OF AUCTION OF 30-YEAR TREASURY BONDS

The Treasury has accepted $0.75 billion of the $ 1.8 billion of tenders received from the public for the 30-year bonds auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	8.25% 1/
Highest yield	8.32%
Average yield	8.30%

The interest rate on the bonds will be 8-1/4%. At the 8-1/4% rate, the above yields result in the following prices:

Low-yield price	100.000
High-yield price	99.232
Average-yield price	99.450

The $ 0.75 billion of accepted tenders includes 55% 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, $0.85 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 2 tenders totaling $13,000

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ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE
THE TORONTO SOCIETY OF FINANCIAL ANALYSTS
MAY 8, 1975

President Wilson, Members of the Toronto Society of Financial Analysts, and Distinguished Guests:

I welcome this opportunity to return to Canada and speak with old friends about the new problems that we face together. I was last here in March when I had the privilege of meeting with Finance Minister Turner and other leaders in your government, and yesterday afternoon I had an extremely cordial meeting with Mr. Turner in my office in Washington. Thus, I feel on familiar and friendly grounds as I come before you tonight.

We recognize, as do you, that the economies of the United States and Canada are among the most highly inter-dependent in the world. Each country is the other's best

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CUSTOMER. CANADA CONTINUES TO SEND ALMOST TWO-THIRDS OF ITS EXPORTS TO THE UNITED STATES, AND OVER TWO-THIRDS OF YOUR IMPORTS ORIGINATE IN OUR COUNTRY. AT THE SAME TIME YOU ARE THE LARGEST PURCHASER OF OUR EXPORTS AS WELL AS OUR CHIEF SUPPLIER OF FOREIGN GOODS. ABOUT A FIFTH OF OUR EXPORTS COME HERE, AND ABOUT A FIFTH OF OUR IMPORTS ORIGINATE HERE. CANADIANS ARE ALSO REGULAR AND LARGE BORROWERS IN OUR LONG-TERM CAPITAL MARKETS.

GIVEN THESE INTERRELATIONSHIPS, IT IS TO BE EXPECTED THAT WHEN THE UNITED STATES EXPERIENCES THE WORST PEACETIME INFLATION IN ITS HISTORY FOLLOWED BY THE MOST SEVERE RECESSION IN A QUARTER OF A CENTURY, THE CANADIAN ECONOMY MIGHT ALSO BE DAMAGED. CLEARLY THE RECESSION HAS DAMPENED UNITED STATES DEMANDS FOR CANADIAN GOODS AND HAS THUS DEPRESSED YOUR EXPORT POSITION. AT THE SAME TIME, I SHOULD POINT OUT THAT CANADA HAS TAKEN ACTIONS WHICH CUT BACK EXPORTS OF ENERGY WHICH POSE DIFFICULT PROBLEMS FOR THE UNITED STATES.

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WE REMAIN FULLY CONFIDENT, HOWEVER, THAT OUR DIFFERENCES CAN BE AMICABLY RESOLVED. IT IS MY HOPE THAT WE CAN ALWAYS TALK FRANKLY AND OPENLY WITH EACH OTHER -- AS EQUALS AND AS FRIENDS. AFTER ALL, IF TWO OF THE OLDEST AND CLOSEST PARTNERS IN THE WORLD CANNOT WORK TOGETHER, WHO CAN? NOR SHOULD WE FORGET THAT THAT WHICH UNITES US REMAINS STRONGER THAN THAT WHICH DIVIDES.

BY ANY OBJECTIVE STANDARD THE STATE OF U.S.-CANADIAN RELATIONS REMAINS BASICALLY HEALTHY. THAT IS ATTESTED TO EVERY YEAR BY OUR GROWING TRADE -- OVER 40 BILLION DOLLARS LAST YEAR -- AND BY THE TENS OF MILLIONS OF OUR CITIZENS CROSSING THE BORDERS ON BUSINESS AND PLEASURE. THE DECEMBER MEETING BETWEEN PRESIDENT FORD AND PRIME MINISTER TRUDEAU DEMONSTRATED THE SATISFACTION OF OUR LEADERS WITH THE GENERAL STATE OF OUR RELATIONSHIP AND OUR MUTUAL DETERMINATION TO MAINTAIN IT THAT WAY. I MIGHT ADD THIS WAS UNDERSCORED BY MY OWN IMPRESSIONS DURING MY RECENT OTTAWA VISIT WITH

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Finance Minister Turner. All of us share the sentiment expressed by External Affairs Minister MacEachen in his Winnepeg speech on relations between our countries. "We are each others best friend," he said, "by choice as well as circumstance."

Ending the Recession

Our most immediate mutual concern is to end the recession that is afflicting both of our economies. Fortunately, both of us appear to be making significant progress.

Ten days ago I returned from an extended trip around the world that enabled me to speak with finance ministers and several heads of state on a wide range of economic issues. One of those meetings was in Paris where I conferred with the finance ministers from the OECD nations.

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IT WAS THE NEAR UNANIMOUS VIEW AMONG THOSE MINISTERS THAT THE WESTERN WORLD WAS NEARING THE END OF THE CURRENT RECESSIONARY CYCLE.

IN THE UNITED STATES, THERE ARE SOLID GROUNDS FOR BELIEVING THAT AS MUCH AS 75 PERCENT OF THE RECESSION IS ALREADY BEHIND US. BECAUSE OF THE SIGNIFICANCE THAT OUR OWN RECOVERY MAY HAVE HERE in Canada, I WOULD LIKE TO DWELL ON THAT SUBJECT FOR A FEW MOMENTS.

IN MY VIEW, TWO FACTORS HAVE BEEN ESPECIALLY IMPORTANT IN BRINGING US CLOSE TO THE END OF OUR RECESSION. ONE HAS BEEN THE RAPID LIQUIDATION OF INVENTORIES, WHICH REACHED A RECORD LEVEL IN THE FIRST QUARTER OF THIS YEAR. THE IMPORTANCE OF THIS LIQUIDATION PROCESS IS THAT IN MANY INDUSTRIES -- SALES ARE MOVING AHEAD MORE RAPIDLY THAN PRODUCTION. AS THAT CONTINUES, WE CAN EXPECT AN INCREASE IN PRODUCTION IN ORDER

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TO MEET DEMAND. AND AS THAT HAPPENS, OF COURSE, WE WILL BE ENTERING UPON THE RECOVERY.

THE INVENTORY LIQUIDATION REFLECTS ANOTHER FACTOR OF EQUAL IMPORTANCE: THE TURNAROUND IN OUR RETAIL SALES. EVEN APART FROM THE INFLUENCE OF PRICE REBATES ON AUTO SALES, RETAIL SALES ROSE BY A TOTAL OF 3-1/2 PERCENT IN THE FIRST QUARTER OF THIS YEAR AND APPEAR TO HAVE INCREASED A BIT FURTHER IN APRIL.

THERE WAS ALSO ENCOURAGING NEWS IN THE EMPLOYMENT FIGURES OUR GOVERNMENT RELEASED LAST FRIDAY. WHILE THE RATE OF UNEMPLOYMENT ROSE TO 8.9 PERCENT, THE HIGHEST LEVEL OF THE POST-WAR PERIOD, THE INCREASE WAS A SMALL ONE AND -- MORE IMPORTANTLY -- APRIL ALSO BROUGHT THE FIRST INCREASE IN OVERALL EMPLOYMENT IN HALF A YEAR. THERE HAS ALSO BEEN A SLIGHT REDUCTION IN THE RATE OF JOB LAYOFFS, WHICH HAS A

CRUCIAL IMPACT NOT ONLY ON UNEMPLOYMENT BUT ALSO UPON PUBLIC CONFIDENCE.

THERE ARE SEVERAL OTHER SIGNS THAT ARE ALSO POINTING IN THE DIRECTION OF RECOVERY:

-- FOR ONE THING, OUR INFLATION RATE HAS FALLEN FASTER AND FURTHER THAN ANYONE THOUGHT POSSIBLE. IN THE THREE MONTHS ENDING IN FEBRUARY, THE CONSUMER PRICE INDEX ROSE AT AN ANNUAL RATE OF 6-1/2 PERCENT, COMPARED TO A PEAK RATE OF 15 PERCENT EARLY LAST FALL, AND INDUSTRIAL WHOLESALE PRICES INCREASED AT A RATE OF LESS THAN 4-1/2 PERCENT IN THE SAME THREE-MONTH PERIOD, COMPARED TO A PEAK RATE OF ALMOST 40 PERCENT LAST SPRING. BECAUSE OF A JUMP IN FOOD PRICES, THE OVERALL WHOLESALE PRICE INDEX RELEASED THIS MORNING SHOWED AN INCREASE, BUT THE INDUSTRIAL WHOLESALE PRICE FIGURES REMAINED VIRTUALLY UNCHANGED.

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-- THE REDUCTION IN THE RATE OF INFLATION WILL BRING AN INCREASE IN REAL EARNINGS, WHICH WILL HELP TO INCREASE CONSUMER PURCHASING.

-- AS MONETARY POLICY HAS BECOME MORE EXPANSIVE AND INFLATION HAS SUBSIDED, SHORT-TERM INTEREST RATES HAVE FALLEN AND FUNDS HAVE BEGUN FLOWING BACK INTO THE THRIFT INSTITUTIONS. THIS SETS THE NECESSARY PRECONDITION FOR AN UPTURN IN THE HARD-HIT HOUSING INDUSTRY.

-- SURVEYS ALREADY SHOW THAT CONSUMER CONFIDENCE IS PERKING UP.

-- AND THERE HAS BEEN A DEFINITE AIR OF OPTIMISM IN THE STOCK MARKET, WHERE THE DOW JONES HAS RISEN BY SOME 35 PERCENT SINCE ITS LOW POINT IN 1974.

IN ADDITION TO THESE DEVELOPMENTS WITHIN THE PRIVATE SECTOR, THE GOVERNMENT HAS ALSO TAKEN SEVERAL POSITIVE STEPS TO ASSIST THE FORCES OF RECOVERY. AS I MENTIONED, THE FEDERAL RESERVE HAS ALREADY EASED MONETARY CONDITIONS

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SUBSTANTIALLY AND BOARD CHAIRMAN ARTHUR BURNS HAS INDICATED THAT THE FEDERAL RESERVE WILL CONTINUE TO SUPPORT THE RECOVERY WHILE AVOIDING EXCESSIVE STIMULATION. AT THE SAME TIME, THE CONGRESS HAS PASSED AND THE PRESIDENT HAS SIGNED THE BIGGEST TAX CUT IN OUR HISTORY. COMBINED WITH A LARGE FEDERAL DEFICIT, THE TAX CUT WILL GIVE A STRONG BOOST TO THE ECONOMY.

SUCH CHEERFUL ECONOMIC NEWS IN THE UNITED STATES IS AS WELCOME AS A SPRING RAIN AFTER A LONG DROUGHT. IN DISCUSSING IT, HOWEVER, I DO NOT MEAN TO SAY THAT PROSPERITY IS AT HAND. CERTAINLY ECONOMIC DEVELOPMENTS IN THE UNITED STATES ARE NOT GOING TO BE A STEADY PATTER OF GOOD NEWS. ECONOMIC POLICY FACES ENORMOUSLY DIFFICULT CHALLENGES IN THE MONTHS AND YEARS AHEAD.

OUR UNEMPLOYMENT RATE SHOULD PEAK SOON, BUT EVEN IF THE RECOVERY PROVES TO BE EXCEPTIONALLY VIGOROUS, UNEMPLOYMENT

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WILL REMAIN UNACCEPTABLY HIGH FOR MONTHS TO COME. FURTHERMORE, INFLATION IS NOT GOING TO DISAPPEAR. WE WILL CONTINUE TO MAKE PROGRESS AGAINST INFLATION, BUT WE MUST REMAIN VIGILENT BECAUSE INFLATION REMAINS OUR MOST SERIOUS LONG-TERM ECONOMIC CHALLENGE. SIMILARLY, OUR PROBLEM OF EXCESSIVE DEPENDENCE ON INSECURE AND OVERPRICED SOURCES OF FOREIGN ENERGY WILL REMAIN SERIOUS FOR SEVERAL YEARS EVEN IF WE TAKE IMMEDIATE CORRECTIVE ACTION AT HOME -- AND SO FAR, THAT ACTION HAS BEEN PAINFULLY SLOW IN COMING. STILL ANOTHER LONG-TERM CHALLENGE OF IMMENSE IMPORTANCE IN THE UNITED STATES IS WHETHER WE WILL BE ABLE TO TRIPLE OUR LEVELS OF CAPITAL INVESTMENT AS WE MUST DO IN ORDER TO ACHIEVE OUR MOST FUNDAMENTAL GOALS OF ECONOMIC GROWTH.

THE CHALLENGES WE FACE ARE THUS FORMIDABLE. OUR BASIC OBJECTIVE FOR THE NEXT SEVERAL MONTHS IS TO ENSURE THAT OUR RECOVERY IS STRONG ENOUGH TO REDUCE UNEMPLOYMENT BUT DOES NOT PROCEED SO RAPIDLY THAT WE SACRIFICE THE PROSPECTS FOR

SUSTAINED DURABLE PROGRESS.

ABOVE ALL, WE MUST RESIST THE TEMPTATIONS OF HIGHLY STIMULATIVE FISCAL AND MONETARY POLICIES. THE TAX REDUCTION THAT WAS ENACTED, ALONG WITH THE FEDERAL DEFICITS, WILL PROVIDE A STRONG BOOST TO THE ECONOMY. AT THE SAME TIME, HOWEVER, A NUMBER OF EXPENSIVE FEDERAL SPENDING PROGRAMS ARE NOW BEING SERIOUSLY CONSIDERED IN OUR CONGRESS ON THE THEORY THAT THEY ARE NEEDED TO SPEED UP THE RECOVERY. MOST OFTEN, the effects of NEW SPENDING PROGRAMS are not felt FOR A YEAR TO EIGHTEEN MONTHS. PROGRAMS ENACTED IN COMING MONTHS WOULD NOT PUMP STIMULUS INTO THE ECONOMY UNTIL WE ARE ALREADY MOVING TOWARD FULL CAPACITY, AND THEY WOULD THUS CONTRIBUTE SIGNIFICANTLY TO NEW INFLATIONARY PRESSURES.

A SECOND DANGER OF OVERSIZED GOVERNMENT DEFICITS WOULD ARISE, AS YOU KNOW, IN OUR PRIVATE CAPITAL MARKETS. FOR

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SEVERAL MONTHS, I HAVE BEEN EMPHASIZING THAT DEFICITS IN THE RANGE OF $50 TO $60 BILLION -- THE RANGE THAT THE ADMINISTRATION HAS SET AS A CEILING -- WILL CREATE SOME STRAINS IN OUR FINANCIAL MARKETS, BUT THEY SHOULD BE MANAGEABLE. HOWEVER, DEFICITS IN THE MAGNITUDE OF $80 TO $100 BILLION WOULD BE CLEARLY EXCESSIVE AND DANGEROUS. AND IN MY TALKS WITH FINANCIAL LEADERS, I FIND THAT MOST OF THEM AGREE WITH THAT VIEW.

IN AN ORDINARY RECESSION, LARGE-SCALE FEDERAL BORROWING CAN BE ACCOMMODATED IN THE PRIVATE MARKETS BECAUSE PRIVATE DEMANDS FOR FUNDS ARE SLACK. IN THIS RECESSION, HOWEVER, DEMANDS FOR FUNDS REMAIN HIGHER THAN USUAL FOR A NUMBER OF REASONS, INCLUDING THE EFFECTS OF INFLATION, THE ILLIQUIDITY AND POOR DEBT STRUCTURE OF MANY OF OUR FINANCIAL AND NON-FINANCIAL INSTITUTIONS, THE ACTIONS OF SOME CORPORATIONS THAT ARE INCREASINGLY FEARFUL OF FUTURE INFLATION, AND THE

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STRAINED FISCAL POSITIONS OF MANY OF OUR STATE AND LOCAL UNITS OF GOVERNMENT. AS A RESULT OF ALL OF THESE FACTORS, WE ARE ALREADY EXPERIENCING SOME DIFFICULTIES IN THE CAPITAL MARKETS AND INTEREST RATES HAVE NOT DECLINED AS FAR AS THEY NORMALLY WOULD DURING A RECESSION.

THE MORE SERIOUS DANGER, HOWEVER, WOULD ARISE NOT THIS YEAR BUT NEXT WHEN THE RECOVERY WILL TAKE HOLD AND WE WILL HAVE A RISING TIDE OF PRIVATE AND PUBLIC DEMANDS FOR FUNDS. IT IS WELL TO REMEMBER THAT WHILE OUR RECESSION IS 75 PERCENT OVER, THE BORROWING TO FINANCE OUR DEFICITS IS ONLY 25 PERCENT COMPLETED. BASED ON THE PRESIDENT'S BUDGET AND CURRENT

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ENACTMENTS, WE EXPECT THAT THE TREASURY WILL NEED TO BORROW SOME $75 BILLION IN FUNDS THIS CALENDAR YEAR -- A BILLION AND A HALF DOLLARS A WEEK. IN 1976, IF THE OUTLAY TOTALS PROJECTED IN OUR CONGRESS ARE AN ACCURATE PROJECTION AND IF THERE IS AN EXTENSION OF MAJOR TAX PROVISIONS, OUR BORROWING NEEDS NEXT YEAR COULD REACH $84 BILLION.

THE IMMEDIATE IMPACT OF HUGE FEDERAL DEMANDS DURING A PERIOD OF RECOVERY WOULD DEPEND, OF COURSE, UPON THE MONETARY POLICY OF THE FEDERAL RESERVE. INDEED, MONETARY POLICY IS GOING TO BE A CRITICAL ELEMENT IN SHAPING OUR ECONOMIC PROSPECTS BOTH NOW AND IN THE FUTURE. IF OVERSIZED FEDERAL DEFICITS CREATE STRONG COMPETITION FOR FUNDS AND THE FEDERAL RESERVE PURSUES A MODERATE POLICY, THERE IS A POSSIBILITY THAT WE WOULD DRIVE UP INTEREST RATES AND ABORT THE PROCESS OF RECOVERY. THE OTHER ALTERNATIVE IS

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THAT THE FEDERAL RESERVE MIGHT SEEK TO ACCOMODATE THE ENORMOUS BORROWING REQUIREMENTS OF THE FEDERAL GOVERNMENT, AS WELL AS PRIVATE DEMANDS, BY CREATING A MORE RAPID GROWTH IN MONEY AND CREDIT. THAT MIGHT POSTPONE THE ADVERSE IMPACT ON THE RECOVERY FOR PERHAPS A YEAR OR TWO, BUT THE CONSEQUENCES OF THAT ACTION WOULD SOON CATCH UP WITH US IN THE FORM OF A REACCELERATED INFLATION FOLLOWED BY A NEW RECESSION AND HIGHER UNEMPLOYMENT. BOTH ALTERNATIVES, THEN, WOULD HAVE HIGHLY UNDESIRABLE RESULTS, AND IT SEEMS CLEAR THAT WE WOULD BE FAR WISER TO AVOID POLICY DECISIONS WHICH WOULD FORCE US TO MAKE SUCH A HOBSON'S CHOICE.

LET ME STRONGLY EMPHASIZE THAT I AM NOT PREDICTING THAT THESE EVENTS WILL TRANSPIRE; RATHER, I AM WARNING OF THE POSSIBLE RESULTS OF MISGUIDED FISCAL AND MONETARY POLICIES. AND LET ME

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ALSO ADD -- AND I KNOW THIS IS IMPORTANT FOR THIS AUDIENCE -- THAT I HAVE BEEN HEARTENED BY THE RECENT DEBATES ON THIS MATTER WITHIN THE CONGRESS AND BY THE EFFORTS TO IMPOSE A CEILING ON THE SIZE OF OUR DEFICITS. THE STEPS TAKEN BY THE CONGRESS IN RECENT DAYS REFLECT A GROWING AWARENESS IN OUR COUNTRY OF THE NEED FOR FISCAL AND MONETARY RESPONSIBILITY, AND I AM INCREASINGLY HOPEFUL THAT THIS AWARENESS WILL BE TRANSLATED INTO SOUND POLICIES FOR THE FUTURE.

POLICIES FOR THE FUTURE

I HAVE LONG BELIEVED THAT THE MOST IMPORTANT CONTRIBUTION THE UNITED STATES CAN MAKE TO INTERNATIONAL ECONOMIC PROGRESS IS TO MAINTAIN A STRONG, HEALTHY ECONOMY AT HOME. WHAT POLICIES, THEN, SHOULD THE UNITED STATES BE PURSUING, AND HOW DO THEY RELATE TO CANADA?

FIRST, AND FOREMOST, WE WILL CONTINUE TO SUPPORT THE FORCES OF RECOVERY. IN WARMING UP THE ECONOMY, HOWEVER, WE MUST BE EQUALLY CAREFUL NOT TO OVERHEAT IT. AS 60 PERCENT OF THE AMERICANS SAID IN A

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RECENT GALLUP POLL, INFLATION REMAINS OUR SINGLE MOST FUNDAMENTAL ECONOMIC PROBLEM. IT WAS INFLATION THAT HELPED TO PRODUCE THIS RECESSION, AND IT IS INFLATION THAT COULD CREATE ANOTHER RECESSION OF EVEN GREATER MAGNITUDE IF WE ADOPT MISGUIDED POLICIES TODAY.

SECOND, IN OUR EFFORT TO TAKE A LONGER LOOK AT OUR ECONOMIC PROBLEMS, WE MUST MAKE A BASIC SHIFT IN OUR DOMESTIC POLICIES AWAY FROM OUR OVEREMPHASIS UPON PERSONAL CONSUMPTION AND GOVERNMENT SPENDING AND TOWARD GREATER EMPHASIS UPON SAVINGS, CAPITAL FORMATION AND CAPITAL INVESTMENT. IT IS AN ECONOMIC FACT OF LIFE THAT INCREASED PRODUCTIVITY IS THE ONLY WAY TO INCREASE OUR STANDARD OF LIVING, AND YET THE RECORD OF CAPITAL INVESTMENT IN THE UNITED STATES IN RECENT YEARS HAS RANKED 17TH AMONG THE 20 NATIONS OF THE OECD.

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THIRD, WE BELIEVE THAT IT IS URGENT THAT ALL OF THE OIL CONSUMING NATIONS, INCLUDING THE UNITED STATES AND CANADA, MOVE AHEAD WITH STRONG AND CONSTRUCTIVE PROGRAMS IN THE FIELD OF ENERGY. WE FULLY SUPPORT THE DESIRES OF THE OPEC NATIONS TO ACHIEVE ECONOMIC DEVELOPMENT, BUT THE PRICES THEY ARE NOW CHARGING FOR THEIR OIL ARE NEITHER JUSTIFIED NOR ARE THEY SUSTAINABLE.

IT IS IMPORTANT THAT ALL OF US MAINTAIN A BALANCED PERSPECTIVE WITH REGARD TO OPEC. THIS CARTEL, LIKE ALL OTHER CARTELS IN THE PAST, IS SUBJECT TO THE LAWS OF SUPPLY AND DEMAND. WHEN DEMAND FALLS, THE CARTEL HAS NO CHOICE BUT TO LOWER ITS PRICE OR TO LOWER ITS PRODUCTION. WE ARE ALREADY SEEING THIS PROCESS AT WORK: BECAUSE OF REDUCED

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WORLDWIDE CONSUMPTION, OPEC HAS NOW CUT ITS PRODUCTION BY OVER 12 MILLION BARRELS A DAY -- ABOUT ONE THIRD OF ITS CAPACITY -- IN ORDER TO HOLD THE LINE ON PRICES. WITHIN A FEW MONTHS, OPEC'S SHUT-IN CAPACITY MAY RISE TO 15 TO 16 MILLION BARRELS OF OIL A DAY. FURTHERMORE, DURING THE LAST THREE YEARS, AS THE OPEC MEMBERS RECOGNIZE, SIGNIFICANT DISCOVERIES OF OIL HAVE BEEN MADE IN SOME 25 TO 30 AREAS OF THE WORLD OUTSIDE OF OPEC -- UNCOVERING RESERVES ESTIMATED AT ROUGHLY 35 BILLION BARRELS. THESE NEW FIELDS COULD PRODUCE SOME 8 MILLION ADDITIONAL BARRELS A DAY BY THE EARLY 1980S, AND THIS DOES NOT INCLUDE NEW PRODUCTION COMING FROM THE UNITED STATES, THE SOVIET UNION, AND THE PEOPLE'S REPUBLIC OF CHINA.

AS THESE PRESSURES HAVE DEVELOPED, SOME OF THE MEMBERS OF THE CARTEL HAVE BEGUN SHAVING PRICES AND WE HAVE BEGUN TO SEE THE FIRST CRACKS IN WHAT MANY HAVE ERRONEOUSLY

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CLAIMED IS AN INPREGNABLE PRICE WALL. AS I HAVE SAID MANY TIMES IN THE PAST, IT IS NO LONGER A QUESTION OF WHETHER OIL PRICES WILL COME DOWN, BUT WHEN THEY WILL COME DOWN.

BOTH OF OUR COUNTRIES SHARE A KEEN INTEREST IN THE LOWERING OF INTERNATIONAL OIL PRICES. THE CANADIAN INTEREST IS PARTICULARLY PRONOUNCED HERE IN ONTARIO, YOUR INDUSTRIAL HEARTLAND. CLEARLY, THOSE WHO WILL GAIN THE MOST FROM A REDUCTION IN THE PRICE OF OIL ARE THE CONGESTED, INDUSTRIALIZED AREAS OF THE WESTERN WORLD. THUS, WE BELIEVE THAT IT IS IN THE INTEREST OF BOTH THE UNITED STATES AND CANADA TO WORK TOGETHER ON ENERGY MATTERS -- NOT TO SEEK BENEFITS AT THE OTHER'S EXPENSE.

STILL ANOTHER MAJOR ECONOMIC GOAL OF THE UNITED STATES -- AND THE <u>FINAL</u> ONE THAT I WILL ADDRESS TONIGHT -- IS TO LOWER THE MANY BARRIERS THAT STILL EXIST IN INTERNATIONAL TRADE.

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THERE IS A CONTINUING DANGER THAT IN TODAY'S ECONOMIC CLIMATE COUNTRIES MAY TURN INWARD, ERECTING PROTECTIONIST WALLS THAT SHIELD THEM FROM THE OUTSIDE AND POSSIBLY SETTING OFF A NEW ERA OF "BEGGAR-THY-NEIGHBOR" POLICIES. IT IS TRUE THAT THE SOLUTIONS TO EACH NATION'S ECONOMIC PROBLEMS MUST BEGIN AT HOME, BUT IT IS EQUALLY TRUE THAT SIGNIFICANT PROGRESS CAN BE MADE THROUGH INTERNATIONAL COOPERATION.

MOREOVER, IT IS NOT UNFAIR TO SAY THAT THE IMPORTANCE OF CANADIAN EXPORTS TO THE UNITED STATES DERIVES IN PART FROM THE FACT THAT WE HAVE MAINTAINED RELATIVELY UNRESTRICTED MARKETS. I ALSO WANT TO MAKE IT CLEAR THAT WE WILL BE TAKING NO STEPS IN THE FUTURE TO BAR YOUR ACCESS TO OUR CAPITAL MARKETS. WE HAVE WELCOMED YOU IN THE PAST, AND WE WILL CONTINUE TO WELCOME YOU IN THE FUTURE.

AT THE SAME TIME, WE HOPE THAT YOU WILL RESIST THE TEMPTATION TO IMPOSE RESTRICTIONS ON OUR ENTRY INTO YOUR

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MARKETS. SUCH RESTRICTIONS MAY NOT APPEAR TO YOU TO HAVE A LARGE IMPACT UPON OUR ECONOMY, BUT IN FACT THEY GREATLY STRENGTHEN THE PROTECTIONIST FORCES WITHIN THE UNITED STATES AND MAKE IT MUCH MORE DIFFICULT FOR US TO CONDUCT AN OPEN AND EVEN-HANDED FOREIGN ECONOMIC POLICY. WE LOOK FORWARD TO ACTIVE PARTICIPATION BY CANADA IN THE MULTILATERAL TRADE NEGOTIATIONS AND AN EVENTUAL LOWERING OF TRADE BARRIERS THAT WOULD BE TO OUR MUTUAL BENEFIT.

IN CLOSING, LET ME STRESS ONCE AGAIN OUR DESIRE FOR FRANK AND OPEN DISCUSSIONS WITH YOU TO RESOLVE THOSE FEW DIFFERENCES THAT EXIST BETWEEN US. AS A NATION OF IMMIGRANTS, WE HAVE LEARNED FROM EXPERIENCE IN THE UNITED STATES THAT FROM A DIVERSITY OF VIEWS CAN COME GREATER STRENGTH, GREATER INSPIRATION -- AND GREATER FRIENDSHIP.

IT HAS BEEN SAID THAT CANADA IS "BOUNDED ON THE NORTH BY GOLD, ON THE WEST BY THE ORIENT, ON THE EAST BY HISTORY --

AND ON THE SOUTH BY FRIENDS." WE HOPE AND TRUST THAT WILL ALWAYS BE TRUE.

THANK YOU.

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Hello, I'm delighted to be with you today. And I like the subjects I've been asked to talk about -- which are women and the economy. That's a nice, wide variety.

Variety is what women are all about. And "all about" is where we are these days.

We are mopping kitchen floors, raising families, living in communes, robbing banks, trying for the executive suite, and in general being as good, bad, smart, silly and cantankerous as men.

Fifty percent of women between 18 and 65 are currently working. We're as well educated as men but, on the average, we earn only three-fifth's of a man's salary. There are many reasons for this and one -- the main reason -- is that many women work only on a part-time basis. For many women, jobs are secondary to their careers as wives and mothers.

Remarks by the Honorable Francine I. Neff, New Jersey Federation of Republican Women, Atlantic City, New Jersey on May 8, 1975

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Politics, of course, is one area that attracts women. Mrs. Ella Grasso is now Connecticut's governor while Mary Ann Krupsak is the Lieutenant Governor of New York. A number of new women entered Congress this year, including your own Representative Millicent Fenwick who has, in the words of this week's Washington Post, become "a star of the 94th Congress freshman class." As you know, Mrs. Fenwick was once a member of the New Jersey State Assembly, and I loved her reply to a male colleague after she had proposed an Equal Rights Amendment. The man said, "I just don't like this amendment, because I've always thought of women as kissable, cuddly and smelling good."

Mrs. Fenwick replied, "That's the way I feel about men too. I only hope for your sake that you haven't been as disappointed as often as I have."

Other women politicians that quickly come to mind are that good friend of all of us, Mary Louise Smith, first woman chairman of the Republican National Committee, and Mrs. Carla Hills, our new Secretary of Housing and Urban Development, and the third woman cabinet officer in history.

In other areas, American women are scoring other gains. Congress outlawed credit discrimination based on sex last year. The Bank of America settled a class action suit on behalf of its female employees, which will mean about $10 million in additional income to women.

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And the First Women's Bank -- that's the name -- is now organized in New York City, to become the first female-run and female-oriented bank in the country.

About 15 more banks are somewhere in the process of being organized. First Women's plans to set up a consumer finance library and investment and counseling services to help women with financial planning.

Now, I've been talking about working women -- and automatically we think of paid jobs. But I'd like to put in a good word for volunteers. They are terribly important to our society. Some 70 million people -- mostly women -- have volunteer jobs, and they contribute an estimated $50 billion a year to America's "gross national product."

I am a wife, mother and dedicated believer in the value of volunteers. For the first quarter century of my adult life, I volunteered for everything from the PTA to the GOP. I was privileged to learn many techniques and skills this way, because a willing volunteer can often work with top people. I personally feel my route to a career was via the way of the volunteer.

Today, I work full time as the United States Treasurer and as National Director of the Savings Bonds Division. I am heartened to know that 97 percent of the people who help sell bonds are volunteers.

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I suspect -- I hope -- that some of you are among those workers in our program.

Our National Savings Bonds goal for 1975 is 6.8 billion dollars in bond sales, and at least 2.4 million new or increased savers.

New Jersey did very well in 1974 Bond sales, ranking 7th in dollar sales in the Nation. And that was a 13 percent increase over 1973.

New Jersey has always been a leader -- and not only in Savings Bonds. I learned the other day that New Jersey was the first state in the Nation to give women the right to vote. That was way back in the 1790's. However, some all-male legislature took it away in 1807 and the reason for this -- I quote with clenched teeth -- was "the good order and dignity of the state." Well, no comment.

Meanwhile -- back to Bonds -- where we do have good leadership right from the top. I was privileged to visit with President Gerald Ford a few weeks ago. He is a regular Savings Bonds buyer, and he told me that this year he is increasing his payroll deduction. Just last week, in fact, he bought the first $200 Bicentennial-design bond.

I certainly don't need to tell you ladies all the advantages of Savings Bonds. You already know most of them. Bonds are a safe, convenient, painless way

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to save, with a very attractive 6 percent interest rate. A banker friend of mine has added up figures which show that over the last 5 years $75 invested monthly in bonds is worth more today than the same amount invested in stocks on the Moody's Industrial Index.

Bonds also have tax advantages which can increase that 6 percent rate substantially.

Finally, Savings Bonds help the nation. They put more of the Federal debt into the hands of long-term savers. They remain outstanding, on the average, for six years, while other marketable instruments turn over in three years or less. Almost a quarter of our publicly held national debt is in the form of Savings Bonds.

So, our Bonds are good for America and good for Americans. Sales of series E and H bonds were at a 29-year high in 1974. And, so far this year, sales are even higher. In this period of inflation and recession, the proven performance of United States Savings Bonds is very appealing.

Let's talk a little more about inflation and recession, and some of the other shocks that have hit our economy this past year.

Since last May --

-- We have experienced the highest rate of inflation in our peacetime history.

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-- Our economy is in the worst slump in years.

-- Oil prices have quadrupled.

-- And $100 million of the world's wealth has been transferred to a small band of developing nations.

These stories all made the headlines. But another story -- equally as important -- did not. And that is the story of how well our economic system has operated under conditions of extraordinary stress.

Throughout 1974, the prophets of doom announced that our Ship of State was halfway under water and sinking fast.

That isn't true and it won't be true. America is alive and well. The Ship of State still sails; the flag still flies; and most of us still live and love and fight with our husbands.

Let's look at the record of some of the predictions, and then let's see what actually happened.

-- Prices on foreign oil jumped sky-high in 1974, and it was said that the international financial system might collapse, as massive sums of money were transferred.

In fact, the financial institutions responded with considerable skill. OPEC funds were rather widely disbursed. And the oil consuming nations are presently working on new international agreements for future emergencies.

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Further, new oil discoveries outside of the OPEC nations, and new production in the United States and elsewhere will eventually result in lowered prices.

For another example, let's consider the fears of some people that we are heading into another Great Depression.

Of course, we've had a recession, but it did not come close to the conditions of the 1930's. Unemployment figures in 1975 are well under half of the 1930's figures, and there are such safety nets as Social Security, medicare, unemployment payments, and food stamps.

Treasury Secretary William Simon correctly predicted some months ago that the economic slide would bottom out during the middle months of this year, and that prediction is being widely borne out.

Our free enterprise system still functions, and the laws of supply and demand still work. But, too often it seems to me, we tend to doubt our institutions and not our doubters.

Since I am a strong advocate of the free enterprise system, people sometimes ask me, "If this system works so well, why is there such a high rate of inflation and unemployment?"

There are several reasons.

We fought a war in Viet Nam and charged it.

We sustained world-wide crop failures.

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We suffered an oil embargo, and oil prices today are high.

But more fundamentally, we have for years abused our economic system. The fact that it still functions so well is a great tribute to its basic strength.

Our growing Federal government puts enormous demands on the economy.

The proliferation of government regulations burdens both business and the consumer. Federal regulations, for example, added $320 to the price of a 1974 car.

And, our national habits of encouraging consumption and federal spending at the cost of savings and investment is a very serious concern. Capital investment in the United States in recent years has been the lowest of any industrial nation in the free world.

Secretary Simon and other government officials are working to turn some of these trends around. They feel, and I agree, that

-- We must restore greater discipline to our financial affairs.

-- We must lighten the hand of government in many areas.

-- And we must encourage savings, investment and capital formation.

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Finally, we must turn away from the doomsayers. Despite our problems, we have an incredibly strong nation, both in spirit and in material goods. Now we need to speak to the good in each other.

But we need to do more than speak -- we need to act.

As parents, we need to instruct our children in economics. We must transfer to them our knowledge of the supply and demand system; our belief in the free marketplace; and the legitimacy of profit.

As business people, it is incumbent on us to take our knowledge and expertise into the classrooms, by actually serving as speakers and lecturers, and by seeing that our elected school board members transmit the need for sound economic education to the teachers.

As citizens, we must demand that the news media make some effort to understand our economic system.

As Republicans, we must make certain we do our work well. We must see that the voting public has a choice of candidates on election day. We must convince good people to run for office, we must then support them with our money, our volunteer time and efforts. We must conduct vigorous and effective registration campaigns, voter preference polls, get-out-the-vote campaigns and ballot security schools. Then after the elections are over, we must make certain our elected

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officials understand that good economics is good politics.

As Americans, we must build on our strengths once more. Let us look back at our 200 years of history. Then let us look forward with confidence as we go about doing our jobs, raising our families and helping society.

Thank you.

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EXCERPTS FROM THE REMARKS OF
EDGAR R. FIEDLER
ASSISTANT SECRETARY FOR ECONOMIC POLICY
U. S. DEPARTMENT OF THE TREASURY

at the
CONFERENCE ON RECESSION AND INFLATION
IN AN INTERDEPENDENT WORLD

UNITED STATES EMBASSY, LONDON
May 9, 1975

The tide of economic affairs in the United States seems to be turning. That tide has been running against economic progress so strongly and for so long it is a bit difficult to accept the idea of a turn for the better. Nevertheless, that is what seems to be happening at the moment.

One key development is that the recession is ending. We do not yet have what lawyers would call hard evidence of the turn in the form of a change of direction in the statistics on production and employment or other measures of total business activity. There are, however, enough "recovery preconditions" in place, and the process of cyclical reversal is far enough along, to support a tentative conclusion that economic recovery is now underway.

At the same time, the rate of inflation has subsided. This improvement has come about for two reasons. First, the impact of the transitory elements that pushed the U. S. inflation rate above the double-digit mark last year is almost entirely behind us now -- the quadrupling of crude oil prices, the food price explosion arising from the very short crops of 1972 and 1974, the price impact of dollar devaluation, and the temporary burst of price and wage increases that followed the end of the controls program (except for petroleum products) just a year ago. Second, the steep recession and the economic slack it created have pulled down the prices of

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many raw materials and other cyclically sensitive commodities, and slowed the rate of increase in other areas. As a result, the consumer price index has risen at an annual rate of 6½ percent in the 3 months ending in February, as compared to a peak rate of 15 percent early last fall, and industrial wholesale prices have increased at a rate of less than 4½ percent in the 3 months ending February, compared to a peak rate of almost 40 percent last spring.

Thus we are now seeing some cheerful economic news in the United States and it is as welcome as rain after a drought. In pointing out this turn for the better, however, I do not want to suggest that we are all going to live happily ever after if we will only sit back and enjoy it. Certainly the economic news in the United States is <u>not</u> going to be a steady diet of pleasant reading from now on. Clearly, economic policy faces enormously difficult challenges in the months and years ahead.

Unemployment should start to decline before too many months have passed, but even if the recovery proves to be exceptionally vigorous, unemployment is going to remain unacceptably high for a long time. Furthermore, inflation is not going to disappear. I think further progress is possible, but inflation will be an even more stubborn adversary from here on in. Similarly, the problem of excessive dependence on insecure energy supplies will remain serious for years to come, even if we take meaningful steps to curb our consumption and encourage new domestic development -- and thus far action of that sort has been slow in coming. Another long-term problem in the U. S. economy that is of particular concern is the likelihood of an inadequate rate of capital formation.

Our problems are thus many and formidable. In meeting them, the basic challenge for policymakers is to make sure that our economic recovery is vigorous enough to insure substantial progress in reducing unemployment, but without proceeding so rapidly that we sacrifice the prospects for sustainable prosperity with low inflation through the years. In particular, we must avoid getting back on the boom-and-bust roller coaster that has been our fate in recent years. To do so would only bring forth a new round of double-digit inflation and another recession subsequently.

I worry that we are now sowing the seeds of just such an unhappy harvest several years down the road. A very large tax cut has been enacted to foster a healthy economic recovery. At the same time, however, a surfeit of those ever-popular Federal spending proposals -- public works and every other sort of program -- are being rushed through Congress on the rationale that they are needed to strengthen the recovery. If this flood of spending bills is not held in check, they will further bloat the already alarming momentum of the growth in government spending. This would, in turn, make it impossible to adequately throttle down the fiscal stimulus as the economy moves back toward full prosperity, and would turn a healthy recovery into an unrestrained boom. Such a development must be avoided if we are to attain steady, sustainable economic progress. We must prevent the expansion that lies ahead from becoming just a brief respite between bouts of economic overindulgence and debilitating inflation.

Lessons of Our Recent Experience

In our efforts to achieve sustained prosperity, we should be guided by experience. Surely the economic difficulties of the past decade have taught us a number of very basic and important economic lessons.

One such lesson that both forecasters and policymakers surely must have learned is humility. The limitations to our understanding of how modern economies work and the inadequacies of our forecasting tools should be clear to all. The same can be said even more emphatically about our economic policy tools and our inability to "fine tune" the economy.

The Costs of Fixed Exchange Rates. A second lesson of the experience of recent years is the heavy costs that are imposed when governments intervene too closely or for too long in the day-to-day workings of the economy. When I was here early last year, I discussed the two and one-half year U. S. effort at comprehensive, mandatory price and wage controls. On other occasions I have considered the problems of excessive industry regulation in such areas as transportation and natural gas. Today I would like to spend a few minutes on this same general theme in a territory I am usually careful to avoid: international economics.

From September 1974 to late February 1975 the dollar weakened progressively in the foreign exchange markets. On a trade-weighted basis, the decline of the value of the dollar was not all that substantial -- a bit less than 5 percent. Against a few individual currencies, however, the dollar dropped precipitously; in the neighborhood of 20 percent against the Swiss franc, for example.

This development brought forth some mutterings of discontent about the floating exchange rate system. Those mutterings have subsided in recent days, but they are sure to surface again, and when they do I hope we will not forget the costs of a fixed exchange rate system.

What I have in mind specifically is the enormous cost to the U. S. economy that is traceable directly to the maintenance of an overvalued dollar from the middle 1960s until August 1971. That cost was paid in 1973 and 1974, I contend, in the form of a serious loss of production and employment and a worsening of inflation.

During the boom year of 1973, the U. S. economy reached the limits of its physical capacity at a much earlier point than many students of the business cycle had expected. Unemployment averaged 4.9 percent for 1973, and the unemployment rate for married men averaged 2.3 percent. By contrast, the previous boom year for the economy, 1968, saw an average unemployment rate of 3.6 percent, and for married men, 1.6 percent. Thus the economy hit its capacity limits in 1973 at a level that was more than one-third worse in terms of unemployment than in 1968.

On further analysis, the reason for the early bump against our expansion ceiling turned out to be a series of bottlenecks in those industries that process basic materials, such as steel, nonferrous metals, paper, lumber, cement, textiles, and chemicals. We had not run out of the capacity to produce automobiles and clothing and machine tools and other finished goods, but our capacity to produce steel, paper and other basic materials was definitely being utilized at its limit.

The point of this is that these basic materials are in most cases internationally traded commodities. In the late 1960s, with the dollar becoming increasingly overvalued under the fixed exchange rate system, the United States had been obtaining a larger and larger part of its needs for basic materials from abroad. Foreign suppliers had a relative price advantage in U. S. markets over our domestic producers,

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whose prices and profits were thus held down. New investment in these industries was thereby inhibited, and our domestic capacity failed to keep pace with the growth of the economy. In August of 1971 the value of the dollar was lowered, but at the same time price controls were imposed, which continued the downward pressure on the prices and profits and new investment of those industries that process basic materials.

By the time the boom of 1973 arrived, four things had happened: (1) we were short of domestic capacity of basic materials relative to our own needs, (2) the simultaneous worldwide boom then in being meant that pressure on capacity was global, with no excess available anywhere, (3) foreign demand for our basic materials increased sharply because the shift in exchange rates made America an especially favorable place for the rest of the world to buy those hard-to-get materials, and (4) our domestic price controls provided a special incentive for U. S. firms to sell in the export markets. As a result, the U. S. economy ran into severe supply bottlenecks of basic materials before it reached its capacity limits in other respects. Economic expansion ground to a halt. Production and employment were irretrievably lost. And inflationary pressures were raised still further.

I do not want to suggest that the fixed exchange rate system and the maintenance of an overvalued dollar were responsible in the entirety for the premature halt to the U. S. economic expansion of the early 1970s or for the explosion of inflation that occurred during that period. Nor do I want to suggest that the economy would have smoothly expanded throughout 1973 to a much higher level of output. Too many factors contributed to our troubles of the past couple of years for us to pick out a single dominant source of the trouble. The virtues of humility I mentioned earlier should keep us from drawing conclusions that are too firm. But I do want to suggest that the continually overvalued dollar of the late 1960s, although it brought us some temporary benefits at the time in terms of increased domestic availability of goods, carried heavy longer run costs and made a substantial contribution to our economic troubles of 1973 and 1974. It is ironic that many people blame the devaluations of the dollar for generating domestic inflation, whereas in reality it was the failure to adjust exchange rates in the 1960s that made the eventual impact in the 1970s so severe.

The Resiliency of Our Economic Systems. A third lesson that we should draw from the economic troubles of the past decade is the extraordinary ability our economies have demonstrated to adjust to severe outside shocks. The disastrous crop production years of 1972 (worldwide) and 1974 (U. S.) and the quadrupling of crude oil prices have certainly taken their toll in terms of both economic activity and inflation. But the more instructive point about these episodes, it seems to me, is that they did not produce the dire consequences that so many people expected at the outset. The international monetary system did not collapse under the massive weight of petro-dollars. Estimates of the future accumulation of funds in the OPEC nations have been scaled down from $600 billion to something on the order of $200 to $250 billion or perhaps less. All of our countries seem to be adjusting to the explosion of energy prices better than expected. Italy was widely thought, some time ago, to be "going down the drain". In the United States forecasts of $1.00 a loaf bread, $1.00 a pound sugar, and $1.00 a gallon gasoline received broad circulation and acceptance. Despite our awful inflation, none of these has come to pass.

I don't think we ought to congratulate ourselves for avoiding all the calamities that had been forecast, but I do think the recent experience with these massive economic shocks suggests that -- contrary to our usual reaction -- we do not need to consider an emergency, radical restructuring of society every time such a shock comes along. To me, the lesson is that our economies have more inherent resiliency and more ability to absorb these external jolts than we generally give our systems credit for.

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

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Contact: L.F. Potts
Ext. 2951

FOR IMMEDIATE RELEASE May 9, 1975

TREASURY ANNOUNCES MODIFICATION OF
DUMPING FINDING ON PIG IRON FROM CANADA

Deputy Assistant Secretary of the Treasury James B. Clawson announced today a Modification of Dumping Finding on pig iron from Canada with respect to one company. Notice of this action will appear in the Federal Register of Monday, May 12, 1975.

For the reasons stated in the "Notice of Tentative Determination to Modify or Revoke Dumping Finding" published on November 25, 1974, pig iron from Canada is no longer being, nor is likely to be, sold in the United States at less than fair value by the Quebec Iron and Titanium Corporation, Sorel, Quebec.

Imports of the subject merchandise from Canada during CY 1974 were valued at approximately $32.6 million.

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

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MEMORANDUM TO CORRESPONDENTS: May 9, 1975

Attached is a letter to the President of the Senate transmitting a draft bill to modernize and simplify the procedures of U.S. Customs Service. The proposal is in line with President Ford's recent initiatives toward alleviating the growing paperwork burden on American businessmen and in improving the quality of Federal agency service to the consumer.

Also attached is a summary of the bill.

Attachments

WS-297

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

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MAY 7 1975

Dear Mr. President:

There is transmitted herewith a draft bill, "To modernize and simplify customs procedures, and for other purposes."

The proposed bill is the first major piece of Customs modernization and simplification legislation designed to facilitate the clearance of merchandise and passengers through Customs in almost 20 years. Not since the Customs Simplification Acts of the 1950's has the Congress been asked to focus on such measures in a comprehensive bill. In the past 18 years the number of persons processed by Customs has doubled, increasing from 129,002,691 (1956) to 259,618,811 (1974), and the number of formal entries of merchandise processed has tripled, from 1,073,990 to 3,206,000. As the Bicentennial Anniversary of this nation approaches, we anticipate that the number of international travelers to be served by Customs and the number of importations of a commercial and non-commercial nature will increase dramatically.

As the oldest agency in the Government, the Bicentennial Anniversary has a special significance for the Customs Service because many of the practices and procedures that are applicable today can be traced back to the first Congress of the United States. Consequently, the Customs Service, in a technological age, is operating under some laws which reflect foreign commerce as it existed at the beginning of the 19th century. The specificity of certain of these antiquated laws prevents Customs from adopting modern business methods to cope with 20th century conditions and from efficiently and effectively utilizing its personnel.

The proposed bill would amend various provisions of the Customs laws and certain navigation laws to permit the application of accepted, modern business techniques to the processing of passengers and imported merchandise and the collection of duties. In addition, the legislation contains proposals which would permit the simplification of many existing procedures and practices by introducing greater flexibility into the law which will result in cost reductions and the more efficient deployment of existing personnel.

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There are enclosed an analysis explaining the provisions of the draft bill and a comparative type showing the changes that would be made in existing law.

It will be appreciated if you will lay the enclosed draft bill before the Senate. A similar proposal has been transmitted to the House of Representatives.

The Department has been advised by the Office of Management and Budget that there is no objection to the submission of this proposed legislation to the Congress and that its enactment would be consistent with the Administration's program.

Sincerely yours,

William E. Simon

The Honorable
Nelson A. Rockefeller
President of the Senate
Washington, D. C. 20510

Enclosures - 3

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CUSTOMS MODERNIZATION AND SIMPLIFICATION ACT

A. Background

In 1799, the Congress enacted the first U. S. tariff law and customs procedure. Although business and international trade practices and patterns have undergone significant change in the nearly 200 years since then, many of the customs procedures have failed to keep apace and today still reflect the 19th Century. The last Customs simplification legislation was enacted in 1956. In that 20-year period, industry has turned to computerized assists to simplify operations, administration, and management. However, the law has not permitted the Customs Service to take advantage of these modern technological developments.

Customs is a major business organization employing over 15,000 people. In 1974, 259,618,811 people and 3,206,000 formal entries were processed by the Customs Service, twice the number of people and three times the number of formal entries than were processed in 1956. Nevertheless, the Customs Service was unable to adopt modern business methods to cope with 20th Century conditions in handling passengers and merchandise or utilize personnel in an efficient and effective manner.

B. The Bill

The proposed legislation attempts to remedy this situation by building flexibility into the existing customs law to permit the Customs Service to adopt the technology of the 20th Century and modern business techniques. The legislation would permit the Customs Service to: (1) increase productivity of the Customs work force to meet the continuing demands of increased workload, (2) increase the response of the Customs Service to the needs of the importing community by instituting modern business procedures and methods in the merchandise processing and financial aspects of importing, and (3) insure compliance with customs laws through modern audit techniques so that more thorough and equitable application of such laws can be enforced in the protection of the revenue.

The bill is divided into three major titles.

Title I would permit Customs to institute up-to-date business methods and adopt accepted financial practices in conjunction with computerized techniques to the processing of importations. Key features of Title I are:

(1) The procedure for entering merchandise would be modified to permit the filing of entries at places other than a customhouse, and within a time period to be established by the Secretary of the Treasury.

(2) The duty collection procedure could be separated from the entry procedure which would permit Customs to implement an accounts receivable system keyed to importations occurring during a specified period.

(3) A system akin to the Internal Revenue Service "returns" system could ultimately be established.

(4) Improved verification procedures would be possible because the bill would require that importers keep books and records.

(5) Customs officers would be given broader authority to question importers and inspect their books and records.

(6) Sanctions would be strengthened to compel recalcitrant importers to testify and to permit inspection of books and records.

Title II would simplify and update certain sections of the customs law to facilitate the processing of international travelers and low value importations, and would introduce greater flexibility into the law where such flexibility would result in cost-saving efficiencies. Among the many amendments included are:

(1) A flat rate of duty of 10 percent would apply to personal articles and gifts accompanying a person arriving in the United States.

(2) The duty-free provision for gifts arriving by mail would be increased from \$10 to \$25; for personal or household articles accompanying a person not entitled to an exemption, from \$10 to \$25; for any other case, from \$1 to \$5.

(3) Authority to sell forfeited liquor--under existing law it must be destroyed.

(4) An increase in the informal entry limit from \$250 to \$500.

(5) Authority to grant a limited exemption from trademark restrictions for merchandise accompanying persons arriving in the United States.

(6) Repeal of navigation fees and authority to charge a fee commensurate with the services rendered.

(7) Expanded arrest authority for Customs officers.

Title III would modernize the procedures for licensing and regulating customhouse brokers, which for 60 years would have been almost unchanged despite the dramatic changes that have occurred in the brokerage industry. Included are amendments which would:

(1) Establish a nationwide licensing system.

(2) Establish a permit system for multi-district operations.

(3) Reduce the number of individually licensed brokers needed to qualify a corporation for a corporate brokers license.

(4) Substitute an independent hearing examiner for the Customs officer who now conducts the hearing.

(5) Introduce a monetary penalty as a disciplinary measure to be imposed when a violation warrants more than a reprimand but less than revocation of the license.

(6) Permit imposition of a monetary penalty pursuant to a summary procedure, subject to court review.

(7) Provide for insurance or a bond to protect clients of the broker against bankruptcies or defalcations.

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
Friday, May 9, 1975

FOR INFORMATION CALL:
(202) 456-6757

COMMENTS OF THE COUNCIL ON WAGE AND PRICE STABILITY REGARDING PROPOSED NOISE EMISSION STANDARDS OF MEDIUM AND HEAVY TRUCKS

Attached is a filing by the staff of the Council on Wage and Price Stability before the Environmental Protection Agency regarding proposed regulations to reduce medium and heavy truck noise from the current 86 decibels to 75 decibels by 1983. A copy of the technical attachment referred to in the text is available at the Council's Public Affairs Office.

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Attachment

CWPS-42

BEFORE THE 359

ENVIRONMENTAL PROTECTION AGENCY

OFFICE OF NOISE ABATEMENT

TRANSPORTATION EQUIPMENT NOISE EMISSION
FOR MEDIUM AND HEAVY DUTY TRUCKS

DOCKET No. ONAC 74-1

COMMENTS OF THE COUNCIL ON WAGE AND PRICE STABILITY
REGARDING PROPOSED NOISE EMISSION STANDARDS
OF MEDIUM AND HEAVY TRUCKS

In its notice of October 15, 1974, the U.S. Environmental Protection Agency (EPA) announced proposed noise regulations for medium and heavy trucks. See 39 Federal Register 38338. That notice requested that comments on these proposed rules be submitted by December 16, 1974. The Council on Wage and Price Stability (the "Council") requests that EPA waive this filing date with respect to the following comments, which present the Council staff's independent analysis of the costs and benefits that would result from the proposed regulations. The staff of the Council has been informed by members of the EPA staff that EPA has not to date taken final action on its proposal, and would be able to consider these comments.

The proposed regulations require the noise emission levels of these trucks to be lowered in accordance with the following timetable: 83 dB(A) in 1977, 80 dB(A) in 1981, 75 dB(A) in 1983. The current noise emission level for these trucks is 86 dB(A). Considerable information has been received by the staff of the Council regarding the economic impact of these regulations. In addition to the EPA background document, we have examined information from the U.S. Department of Transportation (DOT) and General Motors (GM).[1/] The data that we have received reveal considerable discrepancies between estimates of both benefits and costs to be derived from the proposed regulations. The character of these discrepancies is delineated most sharply by the various estimates of the changes in heavy diesel truck prices that will result from the additional hardware necessary to achieve the proposed noise levels. DOT estimates the cost of this hardware

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1/ For specific sources see the references included in Attachment I.

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at $1,075, the EPA estimate is $1,130, and the GM estimate is $4,450.[2/]

Of particular concern to us is the relative lack of attention that has been paid to evaluating the benefits of what is certain to be an extremely costly regulation. In its background document to the proposed standards (pp. 6/1-40), EPA has measured benefits in terms of the number of people who will obtain annoyance relief from the reduced noise levels proposed in the regulation.[3/] General Motors, in its December 1974 response to the proposed standards (page VIII-3), has measured the benefits in terms of a reduction in the number of "impacted environmental situations" that will no longer be subjected to noise levels in excess of these same benchmarks. Comparing the costs of a

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2/ We consider GM's estimate to be unrealistically high. In determining hardware costs, GM included in its sample truck models that represent only 47 percent of its heavy truck sales. One of the models included by GM in developing its estimates had a sales volume in 1974 of 447 units -- only 3.2 percent of GM's diesel powered heavy truck sales.

3/ EPA has also offset against costs the fuel savings which are claimed to result from implementation of the regulations.

proposed regulation against the number of people who would no longer be annoyed if the regulation were promulgated is like comparing apples with oranges. Difficult though it may be, some way has to be found to determine the value that these people place upon their quieter environment. Only DOT has attempted to do this through a sponsored research project directed by Jon Nelson at The Pennsylvania State University. 4/

We also discover major differences of opinion concerning the technological feasibility of attaining the noise levels proposed in the regulation. EPA

4/ Nelson used the changes in residential property value associated with changes in noise level as his measure of the benefits of noise abatement. To obtain his estimates he used the impacted population data in the EPA background document (reference 7 in Attachment I). For the low estimate (used in our analysis) Nelson included only the marginally remaining impacted population as the noise level declined toward 75 dB(A). He then annualized the capitalized value of the property benefit per household to the year 2000 and arrived at the annual flow. This estimate of the capitalized benefit per household was obtained from a sample taken in the Washington, D.C. area which measured the covariation between differential levels of residential property values and differential levels of air or noise pollution. While we consider such estimates to be a rather slender reed upon which to base standard settings, they appear to be the best that are presently available. Certainly we consider their use to be more justified than the setting of such standards with no reference to the value of noise abatement to the affected population. For more specific details, see reference 4 in Attachment I.

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states in its Federal Register announcement that these levels can be attained using presently available technology. However, both DOT and GM have raised serious doubts about the validity of this contention. In particular, DOT reports that, in its "Quiet Truck Program," only one of the three contractors was able to attain the 75 dB(A) level.[5/]

In view of these various discrepancies and conflicting assertions, we have performed our own benefit-cost analysis in order better to determine the extent to which these proposed regulations are economically justified. Details of this analysis appear in Attachment I.

Our analysis incorporates data from all the sources submitted to us. We made every effort to give the proposed regulations the benefit of any doubt. Consequently, we believe that, if anything, we have understated the costs and overstated the benefits.

As shown in Table I of Attachment I, we

5/ W.H. Close, Office of Noise Abatement, Department of Transportation, Testimony at Public Hearings of U.S. Environmental Protection Agency on Proposed Noise Emissions Standards for New Products -- New Medium and Heavy Duty Trucks, p. 6.

estimate that by the year 2000, EPA's proposed regulations, Scenario III, will generate total benefits of \$46.5 billion and total costs of \$44.5 billion. Discounting each benefit stream at 10 percent, the present value of benefits is \$10.4 billion; the present value of costs, \$8.4 billion; giving a ratio of discounted benefits to discounted costs of 1.246.

It might appear from this analysis that the proposed regulations can be considered as economically justified. This is not the case. To see this, it must be realized that what EPA is proposing is, in fact, three separate regulations -- 83 dB(A) by 1977, 80 dB(A) by 1981, and finally 75 dB(A) by 1983. Economists are quite familiar with the phenomenon of increasing marginal costs and decreasing marginal benefits as more resources are expended in a particular activity. For example, it should be expected that the benefits of reducing truck noise from its current level of 86 dB(A) to 83 dB(A) would be both more valuable to society and less expensive to achieve than would a further reduction from 83 dB(A) to 80 dB(A) and from 80 dB(A) to 75 dB(A).

To highlight these all important <u>marginal</u>

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effects, we have broken the EPA proposal into three components. Scenario I assumes that a reduction of truck noise to 83 dB(A) is achieved by 1977 and that no reductions are achieved thereafter. In this scenario, total benefits by the year 2000 are $53.4 billion and total costs are $9.7 billion. Discounted benefits and costs are $11.5 billion and $2.25 billion respectively, for a discounted benefit-cost ratio of 5.11. As expected, this is considerably higher than the average discounted benefit-cost ratio of 1.245 in Scenario III.

Scenario II assumes that both the 83 dB(A) and 80 dB(A) targets are achieved as scheduled. Total benefits achieved by the year 2000 under this scenario are $51.04 billion and total costs are $26.17 billion. Discounted benefits and costs are $11.15 billion and $5.38 billion respectively. The discounted benefit-cost ratio is 2.073, less than half the ratio of Scenario I, but still more than twice the ratio of Scenario III.

However, it is important to note what has happened to total benefits and costs between Scenario I and Scenario II. Discounted benefits have actually fallen by $.34 billion,[6/] while discounted costs have risen by $3.13 billion.[7/]

Comparing Scenario II with Scenario III in which all three targets are met allows us to determine

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6/ The apparent anomaly of discounted benefits actually dropping as the standard moves from 83 dB(A) to 80 dB(A) is accounted for by the fact that the improvement in fuel economy at 80 dB(A) as compared with the current 86 dB(A) level is actually <u>less</u> than the improvement in fuel economy at the 83 dB(A) level. We have followed DOT's procedure in treating improved fuel economy as a benefit. Alternatively, the reduction in improved fuel economy could have been treated as an increase in cost. If this had been done, discounted benefits would indeed have gone up, but discounted costs would have increased even more. The net change is not affected by the procedure.

7/ As discussed in more detail in Footnote 5 of Attachment I, the marginal costs of going from the current 86 dB(A) level to 83 dB(A) may have been understated and the benefits, overstated. This is because if manufacturers knew that the 80 dB(A) level must be reached within a relatively short time after meeting the 83 dB(A) standard, they are likely to install clutch fans at the time they are trying to comply with the 83 dB(A) standards. The installation of clutch fans accounts for the primary fuel economy benefit which is the major source of benefits in moving from 86 dB(A) to 83 dB(A). Our scenarios assume that clutch fans will be installed in meeting the 83 dB(A) standard, although this installation likely would not be required to enable trucks to meet the standard.

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the marginal costs and benefits of going from 80 dB(A) to 75 dB(A). Discounted costs rise by $3.0 billion; discounted benefits <u>fall</u> by $0.71 billion.

To conclude, we have little doubt that a move from 86 dB(A) to 83 dB(A) is economically justified. Although our analysis indicates that a further move to 80 dB(A) may not be justified, we believe the cost interdependencies referred to in Footnote 5 above may be such as to render this result suspect. We have no doubt, however, that the proposed eventual lowering of the standard to 75 dB(A) is economically unjustified based upon the evidence we have seen.

We urge EPA to more carefully examine the costs and benefits of the proposed 80 dB(A) and 75 dB(A) standards. In particular, we believe that EPA should consider whether, in light of our analysis, either should be adopted. As we have already noted, we believe that the case for 80 dB(A) perhaps can be made. We are extremely suspicious that the 75 dB(A) target can be justified.

Respectfully submitted,

George C. Eads
Assistant Director for
Government Operations
and Research

Vaughn C. Williams
General Counsel

May 9, 1975

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

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FOR IMMEDIATE RELEASE MAY 9, 1975

SIMON ANNOUNCES MEETING OF
U.S.-ISRAELI JOINT COMMITTEE

Treasury Secretary William E. Simon announced today that the U.S.-Israeli Joint Committee for Investment and Trade will meet in Washington, May 12-13. The Joint Committee, which was established during Secretary Simon's visit to Israel in July 1974, is co-chaired by Secretary Simon and Israel's Minister of Finance, Yehoshua Rabinowitz.

"These meetings," Simon said, "are an important part of continuing U.S. efforts to create a constructive economic climate in the Middle East which would facilitate U.S. relations with countries of the area.

"During the meetings we will continue negotiations towards a new tax treaty and discuss means of expanding mutually beneficial trade and investment ties between the U.S. and Israel," Simon added.

Specialized joint subcommittees on a broad range of economic issues, including capital investment, trade, raw materials and industrial research and development, held a series of meetings last fall in preparation for the ministerial-level meetings.

The U.S. delegation is made up of senior representatives from the Departments of State, Treasury, Commerce, Export-Import Bank, OPIC, and other U.S. Government agencies. The Israeli delegation includes senior economic officials from the Israeli Embassy in the United States and the Ministries of Finance and Commerce and Industry in Israel.

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

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ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE
THE BUSINESS COUNCIL
HOT SPRINGS, VIRGINIA MAY 10, 1975

I WELCOME THIS OPPORTUNITY TO MEET AGAIN WITH OLD FRIENDS AND TO TALK WITH YOU ABOUT A SUBJECT OF CONSUMING INTEREST TO US ALL: THE FUTURE PROSPECTS FOR OUR ECONOMY.

FOR SEVERAL MONTHS, ECONOMIC POLICY MAKERS IN WASHINGTON HAVE BEEN PREOCCUPIED WITH THE PROBLEMS OF ENDING THE RECESSION AND SLOWING THE RATE OF INFLATION. IT IS FAIRLY APPARENT NOW THAT WE ARE COMING TOWARD THE END OF THE DOWNWARD SLIDE. PERHAPS AS MUCH AS 75 PERCENT OF THE RECESSION IS ALREADY BEHIND US. I NEED NOT BURDEN YOU WITH ALL OF THE STATISTICS, BUT IF YOU LOOK AT SOME OF THE MOST IMPORTANT INDICATORS -- THE INCREASE IN OVERALL EMPLOYMENT REPORTED LAST WEEK, THE RAPID LIQUIDATION OF INVENTORIES, THE INCREASE IN RETAIL

SALES OVER THE LAST THREE MONTHS, THE SUBSTANTIAL REDUCTION IN INFLATION RATES, THE FLOW OF MONEY BACK INTO THE THRIFT INSTITUTIONS, AND OTHERS -- YOU CAN FIND CLEAR AND CONVINCING EVIDENCE THAT THE RECESSION IS BOTTOMING OUT. I BELIEVE IT IS A FAIRLY UNANIMOUS VIEW THAT WE WILL BE ON THE ROAD TO RECOVERY BEFORE THE END OF THE YEAR.

AS WE EMERGE FROM THE RECESSION, IT IS ESPECIALLY IMPORTANT THAT WE NOW BEGIN TO CHANGE FOCUS -- THAT WE BEGIN TO TAKE A LONGER VIEW OF OUR ECONOMIC FUTURE AND DIRECT GREATER PUBLIC ATTENTION TO OUR MORE FUNDAMENTAL NEEDS. WHILE THE PROCESS OF RECOVERY WILL CONTINUE TO REQUIRE CAREFUL AND VIGILANT MANAGEMENT, WE MUST DETERMINE NOW WHETHER THE PERIOD OF RECOVERY AND BEYOND WILL BRING DURABLE ECONOMIC PROGRESS OR A SORROWFUL REPETITION OF THE BOOM AND BUST CYCLES OF THE PAST.

IT IS ESSENTIAL THAT WE PUT THE ECONOMY ON A LONG-TERM COURSE THAT IS SUSTAINABLE BOTH POLITICALLY AND ECONOMICALLY. WE MUST FINALLY BREAK THE HABIT OF RESORTING TO SHORT-TERM PALLIATIVES -- PALLIATIVES THAT GIVE US AN ILLUSORY SENSE OF PROSPERITY AT THE EXPENSE OF LONG-TERM DAMAGE TO OUR ECONOMY -- AND INSTEAD TAKE THOSE STEPS WHICH WILL CORRECT THE DEEP-SEATED IMBALANCES IN OUR ECONOMY AND OVERCOME THE SCOURGE OF INFLATION. WITH BOTH THE RECESSION AND INFLATION NOW RECEDING, WE FINALLY HAVE A GOLDEN OPPORTUNITY TO SHAPE OUR POLICIES TO MEET OUR LONG-TERM NEEDS. IT WOULD BE A TRAGIC MISTAKE TO PASS IT BY.

NEEDLESS TO SAY, IT WILL BE UP TO ALL OF US HERE AT THIS CONFERENCE TO LEAD THE WAY, BECAUSE IF WE DON'T, WHO WILL?

RESPONSIBLE FISCAL AND MONETARY POLICIES

MY MOST IMMEDIATE CONCERN -- AND ONE THAT I HAVE EXPRESSED ON SEVERAL OCCASIONS -- IS THAT WE WILL BECOME OVERLY IMPATIENT

WITH THE PACE OF RECOVERY AND ENORMOUS POLITICAL PRESSURES WILL BE GENERATED TO SPEED IT UP THROUGH HIGHLY STIMULATIVE FISCAL AND MONETARY POLICIES. INCREASINGLY, WE HEAR IN THE CONGRESS AND ELSEWHERE THAT AS OUR FIRST PRIORITY, WE SHOULD END THE RECESSION AS QUICKLY AS POSSIBLE AND THAT WE SHOULD IGNORE THE INFLATIONARY CONSEQUENCES UNTIL NEXT YEAR OR BEYOND.

I AGREE WITH THE DESIRE TO END THE RECESSION QUICKLY BUT I STRONGLY DISAGREE THAT WE SHOULD IGNORE THE INFLATIONARY CONSEQUENCES BECAUSE THOSE ARE PRECISELY THE WRONG-HEADED POLICIES THAT LED US INTO THIS THICKET. CLEARLY, WE NEED A LARGER THAN NORMAL FEDERAL DEFICIT NOW IN ORDER TO SUPPORT THE FORCES OF RECOVERY. BUT TIMING IS EQUALLY CRITICAL. SINCE MOST FEDERAL PROGRAMS TAKE A YEAR TO 18 MONTHS TO BEGIN PUMPING STIMULUS INTO THE ECONOMY, WE SHOULD NOT ENACT STIMULATIVE MEASURES THAT WILL IMPACT UPON THE ECONOMY AT THE SAME TIME WE ARE MOVING TOWARD FULL CAPACITY.

After continual repetition, I think the Administration and many business leaders are beginning to get through to Members of Congress and to the public that Federal budget deficits of $80 to $100 billion could be extremely dangerous. People are waking up to the fact that huge deficits could touch off another explosion in prices and then ultimately lead to another recession and even higher unemployment. The problems that large scale Federal deficits would generate in our capital markets during a recovery period are perhaps more difficult to understand, but I'm beginning to sense a greater appeciation of that as well. I have been particularly heartened by the growing awareness in Congress of these dangers and by the initial Congressional efforts to impose ceilings on the Federal deficits. While the ceilings that were voted are higher than we believe to be prudent, they nevertheless represent a positive step forward and we remain hopeful that growing Congressional sentiment against irresponsibile deficits will translate into sound policies for the future.

LAST WEEK ARTHUR BURNS MADE ANOTHER VALUABLE CONTRIBUTION TO OUR ECONOMIC DIALOGUE WHEN HE ANNOUNCED MONETARY GROWTH TARGETS OF BETWEEN 5 AND 7.5 PERCENT FOR THE YEAR ENDING NEXT MARCH. WITH GROWTH TARGETS NOW OUT IN THE OPEN, I WOULD HOPE THAT WE CAN MORE EASILY DRIVE HOME THE MESSAGE THAT EXCESSIVE MONETARY POLICIES -- POLICIES ON THE UPPER END OF THOSE TARGETS -- ALSO CARRY A HIGH RISK OF IGNITING A NEW ROUND OF INFLATION. LET US RECOGNIZE AS WELL THAT MONETARY POLICY DOES NOT OPERATE IN A VACUUM. HUGE BUDGET DEFICITS COULD PRESENT THE FEDERAL RESERVE WITH THE EXCRUCIATING ALTERNATIVES OF EITHER ABANDONING THEIR MONETARY GROWTH TARGETS OR ALLOWING A CREDIT CRUNCH WHEN PRIVATE LOAN DEMAND STARTS TO SWELL. THUS, IN ORDER TO ACHIEVE DURABLE GROWTH, IT IS ESSENTIAL THAT WE PURSUE BALANCED, RESPONSIBLE POLICIES ON BOTH THE FISCAL AND MONETARY SIDE.

CAPITAL INVESTMENT -- THE GREAT CHALLENGE AHEAD

AS WE DEBATE FISCAL AND MONETARY QUESTIONS IN COMING MONTHS, THERE IS ANOTHER SUBJECT WHICH I HOPE THAT ALL OF YOU HERE WILL HELP TO KEEP AT THE FOREFRONT OF PUBLIC CONCERN, FOR IT IS PERHAPS EVEN MORE CRUCIAL TO OUR LONG RANGE HOPES. IT IS AN ECONOMIC FACT OF LIFE THAT INCREASED PRODUCTIVITY IS THE ONLY WAY TO INCREASE OUR STANDARD OF LIVING, AND YET IN RECENT YEARS THE UNITED STATES HAS NOT ADEQUATELY MET THE CAPITAL INVESTMENT REQUIREMENTS THAT ARE NECESSARY TO SUPPORT STEADY INCREASES IN PRODUCTIVITY. THE NEED FOR GREATER CAPITAL INVESTMENT HAS NOW BECOME ONE OF OUR MOST FUNDAMENTAL CHALLENGES FOR THE COMING DECADE. HISTORY WILL ULTIMATELY JUDGE US, I BELIEVE, NOT ON OUR SUCCESS IN DEALING WITH SHORT-TERM PROBLEMS SUCH AS RECESSION BUT IN MEETING THE LONG-RANGE GOALS OF GREATER SAVINGS AND INVESTMENT AS WELL AS ALLOCATION OF RESOURCES. THIS MATTER IS OF SUCH OVERRIDING CONCERN THAT I WOULD LIKE TO DEVOTE THE REST OF MY REMARKS TO IT HERE THIS MORNING.

THE BEGINNING POINT FOR OUR CONSIDERATION OF CAPITAL INVESTMENT -- AND ONE THAT SHOULD BE OF KEEN INTEREST HERE -- IS THE PATTERN OF ECONOMIC GROWTH DURING THE DECADE OF THE 1960S. THE AVERAGE ANNUAL RATE OF REAL ECONOMIC GROWTH DURING THAT PERIOD FOR THE TWENTY NATIONS BELONGING TO THE ORGANIZATION OF ECONOMIC COOPERATION AND DEVELOPMENT (OECD) RANGED FROM A HIGH OF 11.1 PERCENT FOR JAPAN, TO A MEDIAN OF ABOUT 5 PERCENT FOR AUSTRALIA, THE NETHERLANDS AND NORWAY, TO A LOW OF 2.8 PERCENT FOR THE UNITED KINGDOM. THE UNITED STATES DURING THIS TIME EXPERIENCED AN AVERAGE GROWTH RATE OF 4 PERCENT A YEAR -- 17TH AMONG THE 20 NATIONS.

ECONOMISTS GENERALLY AGREE THAT THE FACTORS AFFECTING GROWTH INCLUDE: (1) THE ACCUMULATED BASE OF CAPITAL GOODS; (2) THE CURRENT PACE OF NEW CAPITAL INVESTMENTS; (3) THE EFFECTIVE APPLICATION OF NEW TECHNOLOGY; (4) THE QUALITY OF THE NATIONAL LABOR FORCE -- ITS EDUCATION, TRAINING, DISCIPLINE

AND COMMITMENT; (5) THE INFRASTRUCTURE OF TRANSPORTATION, COMMUNICATION, FINANCIAL AND SERVICE FACILITIES; (6) ACCESS TO INDUSTRIAL RAW MATERIALS; (7) MANAGERIAL SKILLS; AND (8) THE ORGANIZATION OF THE ECONOMIC SYSTEM. THE MIX OF THESE BASIC ECONOMIC VARIABLES VARIES FROM COUNTRY TO COUNTRY AND CHANGES OVER TIME. IT IS ALSO POSSIBLE TO SUBSTITUTE ONE, OR A COMBINATION, OF THESE PRODUCTIVITY VARIABLES FOR SPECIFIC INADEQUACIES. HOWEVER, IT IS CLEAR THAT A STRONG RATE OF NEW CAPITAL INVESTMENT IS REQUIRED TO GENERATE SUSTAINED GROWTH. IN FACT, THE EFFECTIVENESS OF ALL OF THE OTHER FACTORS THAT DETERMINE PRODUCTIVITY ARE HEAVILY DEPENDENT UPON THE QUANTITY AND QUALITY OF CAPITAL GOODS MADE AVAILABLE BY NEW INVESTMENT.

FOR MANY YEARS OUR ADVANTAGEOUS RATIO OF CAPITAL TO LABOR HAS BEEN ACKNOWLEDGED AS THE BASIS OF THE REMARKABLE RISE OF THE U.S. ECONOMY. BUT EVEN THOUGH PLANT AND EQUIPMENT EXPENDITURES WILL CONTINUE IN THE FUTURE AS THE ECONOMY GROWS, IT IS UNREALISTIC TO ASSUME THAT THE HISTORICAL PATTERNS OF INVESTMENT

AND PRODUCTIVITY WILL BE ADEQUATE TO MEET THE PRIORITIES OF THE FUTURE. AND I CERTAINLY AM NOT SUGGESTING THAT WE CAN FULFILL EVERY CLAIM PRESENTED BY SOCIETY. THE DISAPPOINTING RECORD OF FEDERAL DEFICITS IN FOURTEEN OF THE LAST FIFTEEN YEARS ENDING WITH FY 1975 -- OR FORTY OUT OF THE LAST FORTY-EIGHT YEARS -- AND THE UNFORTUNATE BOOM AND BUST PATTERN OF ECONOMIC PERFORMANCE OVER THE PAST DECADE INDICATE THAT WE HAVE NOT BEEN ABLE TO EFFECTIVELY IDENTIFY AND MANAGE OUR NATIONAL ECONOMIC PRIORITIES.

ALTHOUGH THE AMOUNTS OF CAPITAL INVESTMENT CONTINUE TO INCREASE IN THE UNITED STATES AND OUR CAPITAL-TO-LABOR RATIO IS STILL RELATIVELY HIGH, OTHER NATIONS DURING RECENT YEARS HAVE ALLOCATED A SUBSTANTIALLY LARGER SHARE OF THEIR RESOURCES TO NEW CAPITAL FORMATION. FURTHERMORE, THE GAP BETWEEN THE U.S. LEVEL OF INVESTMENT, MEASURED AS A SHARE OF NATIONAL OUTPUT, AND THE COMMITMENTS OF OTHER LEADING INDUSTRIAL NATIONS HAS INCREASED. TOTAL U.S. FIXED INVESTMENT AS A SHARE

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OF NATIONAL OUTPUT DURING THE TIME PERIOD 1960 THROUGH 1973 WAS 17.5 PERCENT. THE U.S. FIGURE RANKS LAST AMONG A GROUP OF ELEVEN MAJOR INDUSTRIAL NATIONS; OUR INVESTMENT RATE WAS 7.2 PERCENTAGE POINTS BELOW THE AVERAGE COMMITMENT OF THE ENTIRE GROUP.

ECONOMISTS OFTEN POINT OUT THAT THERE ARE SEVERAL FACTORS WHICH ACCOUNT FOR OUR POOR PERFORMANCE IN CAPITAL INVESTMENT AND, IN THEIR VIEW, CAST IT IN A MORE FAVORABLE LIGHT. FOR EXAMPLE, BECAUSE OF THE UNUSUALLY LARGE SIZE OF OUR ECONOMY AND OUR RELATIVELY ADVANCED STAGE OF DEVELOPMENT, THEY SAY IT IS ONLY TO BE EXPECTED THAT OUR RATE OF ADDITIONAL GROWTH MIGHT BE LOWER THAN OTHER COUNTRIES. A RELATIVELY LARGER SHARE OF OUR INVESTMENT MUST ALSO BE USED FOR REPLACEMENT AND MODERNIZATION OF EXISTING FACILITIES. WHILE THIS PROCESS DOES NOT NECESSARILY INCREASE THE PRODUCTIVE CAPACITY OF OUR ECONOMY,

IT DOES PROVIDE A CONTINUING OPPORTUNITY TO INTRODUCE NEW TECHNOLOGY IN THE U.S. ECONOMIC SYSTEM.

IN MY EXPERIENCE, THERE HAVE BEEN TWO OTHER FACTORS THAT HAVE BEEN EVEN MORE IMPORTANT THAN THE TWO I HAVE MENTIONED IN INFLUENCING OUR INVESTMENT PATTERNS -- NAMELY, THE STRONG ORIENTATION WITHIN OUR SOCIETY TOWARD PERSONAL CONSUMPTION AND TOWARD GOVERNMENT SPENDING. THE EMPHASIS ON CONSUMER SPENDING HAS UNDOUBTEDLY CAUSED MUCH OF THE RAPID DEVELOPMENT OF OUR ECONOMY BECAUSE IT HAS CREATED A STRONG DEMAND FOR GOODS AND SERVICES NEEDED TO SUSTAIN OUTPUT, EMPLOYMENT AND INVESTMENT. AT THE SAME TIME, HOWEVER, IT HAS ALSO LED TO A LOWER ACCUMULATION OF GROSS SAVINGS FLOWS THAN IN OTHER COUNTRIES. AS TO THE IMPACT OF THE GOVERNMENT, IT IS CLEAR THAT HIGH LEVELS OF GOVERNMENT SPENDING HAVE DIVERTED FUNDS AWAY FROM PRIVATE INVESTMENT. GOVERNMENT SPENDING AT

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ALL LEVELS NOW REPRESENTS APPROXIMATELY ONE-THIRD OF OUR GROSS NATIONAL PRODUCT, AND IF RECENT TRENDS PREVAIL, IT COULD RISE AS HIGH AS 60 PERCENT BY THE END OF THE CENTURY. SUCH HEAVY GOVERNMENTAL DOMINATION WOULD NOT ONLY FRUSTRATE OUR HOPES FOR FUTURE CAPITAL INVESTMENT BUT IT WOULD ALSO SEVERELY JEOPARDIZE OUR ECONOMIC AND PERSONAL FREEDOMS.

WHILE THESE VARIOUS MODERATING FACTORS MAY HELP TO EXPLAIN WHY THE U.S. RECORD OF CAPITAL INVESTMENT IN RECENT YEARS HAS BEEN LOWER THAN OTHER MAJOR INDUSTRIALIZED NATIONS, THEY DO NOT, IN MY VIEW, CONTRADICT THE CONCLUSION THAT OUR INVESTMENT LEVELS HAVE BEEN INADEQUATE. EXPERIENCE HAS AMPLY DEMONSTRATED THAT OUR INFLATION AND UNEMPLOYMENT PROBLEMS OF TODAY HAVE BEEN CREATED IN PART BY CAPACITY SHORTAGES, ESPECIALLY THE STRAINS THAT DEVELOPED IN EARLY 1974 IN ENERGY AND RAW MATERIALS. THE CONTINUOUS DETERIORATION OF OUR INTERNATIONAL TRADE BALANCE DURING THE 1960S, WHEN THE DOLLAR WAS OVERVALUED, WAS ALSO AT LEAST PARTLY THE RESULT OF THE LOSS OF COMPETITIVENESS

FOR U.S. PRODUCTS AND INCREASED RELIANCE ON FOREIGN SOURCES OF GOODS. WE SHOULD ALSO RECOGNIZE THAT THE COSTS OF CAPITAL AND ITS AVAILABILITY FOR PRIVATE SECTOR NEEDS ARE HEAVILY DEPENDENT ON THE FISCAL AND MONETARY ACTIONS OF THE GOVERNMENT. WHILE THE FINANCIAL MARKETS REMAIN VERY RESILIENT AND RESPONSIVE TO CHANGING CREDIT AND EQUITY NEEDS, THEY HAVE NOT BEEN IMMUNE TO THE DISRUPTIVE AND INFLATIONARY IMPACT OF GOVERNMENTAL POLICIES.

A SLOW RATE OF CAPITAL INVESTMENT FOR AN EXTENDED PERIOD OF TIME CAN ALSO CAST A LONG SHADOW OVER A NATION'S ECONOMIC FUTURE. AS SHOWN BY A NUMBER OF STUDIES, THERE IS A CLOSE RELATIONSHIP BETWEEN CAPITAL INVESTMENT AND VARIOUS MEASURES OF ECONOMIC GROWTH AND PRODUCTIVITY. A DYNAMIC ECONOMY IS NEEDED TO CREATE JOBS BY APPLYING NEW TECHNOLOGY AND EXPANDED PRODUCTION CAPACITY. A PRODUCTIVE LABOR FORCE IS ALSO NECESSARY FOR PRODUCING GOODS AND SERVICES TO MEET

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RISING DEMANDS FOR AN IMPROVED STANDARD OF LIVING AS A MEANS OF HOLDING DOWN INFLATION. IT IS NO ACCIDENT THAT THE UNITED STATES -- WITH ONE OF THE WORST RATES OF CAPITAL INVESTMENT AMONG WESTERN NATIONS -- HAS ALSO HAD ONE OF THE POOREST RECORDS IN PRODUCTIVITY GAINS. DURING THE PERIOD FROM 1960 THROUGH 1973, PRODUCTIVITY INCREASES IN THE MANUFACTURING SECTOR AVERAGED 10.5 PERCENT A YEAR IN JAPAN, APPROXIMATELY 6 PERCENT IN FRANCE AND WEST GERMANY, 4 PERCENT IN THE UNITED KINGDOM, AND HERE IN THE UNITED STATES -- THE ECONOMIC LEADER OF THE WORLD -- ONLY 3.3 PERCENT.

FUTURE CAPITAL INVESTMENT REQUIREMENTS

LET'S TURN NOW FROM THE INVESTMENT NEEDS OF THE PAST TO THOSE OF THE FUTURE. ECONOMIC PROJECTIONS ARE ALWAYS DIFFICULT, BUT ESTIMATING FUTURE CAPITAL NEEDS IS PARTICULARLY UNCERTAIN AT THIS TIME BECAUSE COSTS AND PRIORITIES CONTINUE TO CHANGE RAPIDLY. IT IS OBVIOUS, HOWEVER, THAT FUTURE CAPITAL REQUIREMENTS

WILL BE ENORMOUS -- LARGER THAN ANYTHING WE HAVE EVER FACED BEFORE. CLEARLY WE WILL NEED TO INCREASE THE QUANTITY AND QUALITY OF HOUSING; DEVELOP NEW ENERGY RESOURCES; IMPROVE THE QUALITY OF OUR ENVIRONMENT; REHABILITATE THE EXISTING TRANSPORTATION SYSTEM AND DEVELOP A BETTER URBAN TRANSPORTATION SYSTEM; CONTINUE THE MECHANIZATION OF AGRICULTURE; CONSTRUCT NEW OFFICE BUILDINGS, COMMUNICATIONS SYSTEMS, MEDICAL FACILITIES, SCHOOLS AND OTHER FACILITIES; AND MEET THE MASSIVE NEEDS FOR NEW PLANT AND EQUIPMENT. IN ALL OF THESE SECTORS WE MUST NOT ONLY REPLACE AND MODERNIZE EXISTING FACILITIES BUT ALSO ADD NEW CAPACITY, PARTICULARLY IN MANY OF OUR MOST BASIC INDUSTRIES.

THE DEPARTMENT OF COMMERCE ESTIMATES THAT CAPITAL REQUIREMENTS FOR PRODUCERS' DURABLE EQUIPMENT AND NONRESIDENTIAL STRUCTURES WILL TOTAL $3.4 TRILLION DURING THE 1974 TO 1985 PERIOD. IF ANNUAL OUTLAYS FOR RESIDENTIAL CONSTRUCTION, WHICH HAVE AVERAGED $50 BILLION DURING THE PAST FOUR YEARS, ARE ADDED TO THIS FIGURE, THE TOTAL CAPITAL NEEDS RISE TO WELL OVER $4 TRILLION.

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A similar study performed by the General Electric Company confirms the massive size of future capital requirements. Assuming a real GNP growth rate of 4 percent and an inflation rate of 5 percent, General Electric expects gross private domestic investment, including residential housing, to total $4-1/2 trillion over the 1974 to 1985 time period.

Both estimates are limited to private investment and exclude the large government expenditures required for roads, dams, government facilities, schools, pollution abatement outlays, and many other projects.

Assuming, then, that the cumulative investment needs between 1974 and 1985 will range from $4 to $4-1/2 trillion, the point to remember is this: over the most recent period of the same length, 1962 through 1973, out total outlays for capital investment in the United States were $1-1/2 trillion. Thus, our capital investment needs in coming years will be

APPROXIMATELY THREE TIMES THE LEVEL OF THE RECENT PAST. IN THE ENERGY INDUSTRY ALONE, OUR BEST ESTIMATE IS THAT OUR NEEDS WILL TOTAL ABOUT $1 TRILLION, STATED IN CURRENT DOLLARS TO INCLUDE THE EFFECTS OF INFLATION. THE REQUIREMENT THAT WE TRIPLE OUR OVERALL INVESTMENT LEVELS IS PERHAPS THE BEST MEASURE OF OUR CHALLENGE AHEAD.

GOVERNMENT POLICIES AND CAPITAL INVESTMENT

WHILE OUR ECONOMY IS CAPABLE OF FINANCING ITS LARGE PRIVATE CAPITAL INVESTMENT REQUIREMENTS, OUR SUCCESS IN MEETING THAT GOAL WILL BE HEAVILY DEPENDENT UPON THE SHAPE OF GOVERNMENT POLICIES. IT IS ABSOLUTELY IMPERATIVE THAT GOVERNMENT POLICIES BECOME MORE SUPPORTIVE. A CONTINUATION OF THE SEVERE FISCAL AND MONETARY DISTORTIONS OF THE PAST DECADE WOULD UNDOUBTEDLY PREVENT THE ACHIEVEMENT OF OUR BASIC GOALS. INFLATION MUST BE CONTROLLED, AND THE GOVERNMENT MUST AVOID DISRUPTING THE CAPITAL MARKETS AS IT HAS IN THE PAST. IN FACT, PUBLIC

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OFFICIALS MUST BALANCE THE FEDERAL BUDGET OVER TIME AND RECORD OCCASIONAL SURPLUSES IN ORDER TO FREE UP CAPITAL RESOURCES TO FULFILL EXISTING PRIVATE INVESTMENT CLAIMS.

FUTURE REQUIREMENTS FOR CAPITAL INVESTMENT CLEARLY INDICATE THAT FEDERAL TAX POLICIES SHOULD BE EXTENSIVELY REVIEWED. JUST SUCH A REVIEW HAS BEEN UNDERWAY IN THE DEPARMENT OF THE TREASURY IN PREPARING FOR THE TAX LAW CHANGES COMPLETED LAST MONTH AND IN ANTICIPATION DURING COMING MONTHS OF A JOINT REVIEW WITH THE CONGRESS OF POSSIBLE TAX REFORM INITIATIVES. I DO NOT WANT TO SUGGEST ANY SPECIFIC RECOMMENDATIONS THIS MORNING BECAUSE WE ARE STILL WORKING ON OUR ANALYSIS. I WILL MERELY REFER TO SOME OF THE POLICY AREAS THAT NEED TO BE REVIEWED:

1. <u>CORPORATE INCOME TAX</u> -- CORPORATE INCOME TAXES DIRECTLY INFLUENCE THE CASH FLOW AVAILABLE FOR INVESTMENT. THE RATE HAS VACILLATED SLIGHTLY ABOVE OR BELOW THE 50 PERCENT

LEVEL FOR MANY YEARS. WHILE A REDUCTION IN THE RATE OF TAXATION WOULD PROBABLY BE THE MOST STRAIGHT-FORWARD APPROACH TO ENHANCING INVESTMENT INCENTIVES, ANY CHANGE WOULD REPRESENT A MAJOR SHIFT IN POLICY AND WOULD REQUIRE EXTENSIVE CONGRESSIONAL CONSIDERATION.

AS PART OF THIS ON-GOING REVIEW OF TAX POLICIES WE NEED TO CONSIDER THE INFLUENCE ON INVESTMENT OF OUR TWO-TIER SYSTEM OF CORPORATE TAXATION IN WHICH INCOME IS TAXED ONCE AT THE CORPORATE LEVEL AND AGAIN AT THE SHAREHOLDER LEVEL. THIS APPROACH DISCRIMINATES AGAINST CORPORATE INVESTORS GENERALLY AND SMALL EQUITY INVESTORS PARTICULARLY. WE SHOULD KEEP IN MIND THAT OUR SYSTEM OF TAXATION BEARS MORE HEAVILY ON CORPORATIONS THAN DO THE TAX SYSTEMS OF ALMOST EVERY OTHER MAJOR INDUSTRIAL NATION. IN THE LAST FEW YEARS OUR MAJOR TRADING PARTNERS HAVE LARGELY ELIMINATED THE CLASSICAL TWO-TIER SYSTEM OF CORPORATE TAXATION. THROUGH A VARIETY OF MECHANISMS d 65

THEY HAVE ADOPTED SYSTEMS OF "INTEGRATING" THE PERSONAL AND INDIVIDUAL INCOME TAXES SO THAT THE DOUBLE TAXATION ELEMENT IS RADICALLY LESSENED.

2. <u>INVESTMENT TAX CREDIT (ITC)</u> -- BUSINESS FIRMS HAVE STRONGLY SUPPORTED THE INVESTMENT TAX CREDIT AS A MAJOR STIMULUS TO ADDITIONAL CAPITAL INVESTMENT AND THE TAX REDUCTION ACT OF 1975 WHICH INCREASED THE CREDIT TO 10 PERCENT FOR TWO YEARS AND REMOVED THE LOWER PERCENTAGE LIMITATION FOR UTILITIES. UNFORTUNATELY, THE INVESTMENT TAX CREDIT HAS HAD AN UNCERTAIN STATUS SINCE IT WAS INITIATED JANUARY 1, 1962 AND BUSINESSMEN ARE JUSTIFIABLY CONCERNED ABOUT THE STABILITY OF AN INCENTIVE WHICH HAS ALREADY BEEN REMOVED TWICE AND THEN REINSTATED.

3. <u>DEPRECIATION GUIDELINES</u> -- THE AMOUNT OF CAPITAL RECOVERY CHARGES PERMITTED FOR TAX PURPOSES ALSO INFLUENCES THE AFTER-TAX EARNINGS AVAILABLE FOR PRIVATE INVESTMENT. IN 1954 THE INTERNAL REVENUE TAX CODE WAS CHANGED TO PERMIT DEPRECIATION CHARGES TO BE MADE ON AN ACCELERATED BASIS.

THE OFFICIAL GUIDELINES WERE AGAIN LIBERALIZED IN 1962, AND IN 1971 THE ASSET DEPRECIATION RANGE (ADR) -- ALONG WITH THE INVESTMENT TAX CREDIT -- WAS ADDED TO THE REGULATIONS.

DESPITE THESE ADJUSTMENTS, AMERICAN BUSINESSES COMPLAIN WITH GOOD REASON THAT THEY HAVE A COMPETITIVE DISADVANTAGE COMPARED WITH SOME OTHER NATIONS. VARIOUS BUSINESS GROUPS HAVE PROPOSED FURTHER LIBERALIZATION, SUCH AS A WIDER ADR PERCENTAGE, BUT FURTHER CONSIDERATION SHOULD BE PART OF THE GENERAL TAX REFORM ANALYSIS INVOLVING THE DEPARTMENT OF THE TREASURY AND THE CONGRESS.

4. <u>SPECIAL INCENTIVES</u> -- THE GOVERNMENT IS FREQUENTLY ASKED TO PROVIDE SPECIAL INCENTIVES IN THE FORM OF REDUCED OR DELAYED TAXES, ACCELERATED DEPRECIATION SCHEDULES, CAPITAL GRANTS OR OTHER BENEFITS TO ENHANCE THE RATE OF RETURN ON CAPITAL INVESTMENTS. WHILE SUCH INCENTIVES ARE FREQUENTLY REQUESTED ON THE BASIS THAT THEY WILL CONTRIBUTE TO THE ACHIEVEMENT

OF SOME NATIONAL PRIORITY, IT IS USUALLY DIFFICULT TO JUSTIFY SUCH SPECIAL TREATMENT. WHEN SPECIAL ADVANTAGES ARE GIVEN TO A SPECIFIC INDUSTRY OR GEOGRAPHICAL REGION, OTHERS BECOME RELATIVELY DISADVANTAGED AND IT IS VERY DIFFICULT FOR GOVERNMENT AUTHORITIES TO DETERMINE WHICH CLAIMS SHOULD BE FAVORED, PARTICULARLY IN A DYNAMIC ECONOMY WHERE PRIORITIES CAN CHANGE RAPIDLY. WHILE THERE MAY BE A FEW SPECIFIC SITUATIONS WHERE THE GOVERNMENT SHOULD INTERVENE IN THE ALLOCATION OF RESOURCES WHICH IS NOW HANDLED EFFICIENTLY BY THE PRIVATE MARKETS, MY OVERWHELMING PREFERENCE IS TO AVOID THE ECONOMIC DISTORTIONS WHICH ARE FOUND TO OCCUR.

CORPORATE PROFITABILITY

THE FINAL AREA OF CONCERN THAT I WANT TO ADDRESS HERE IS THE FUTURE OUTLOOK FOR CORPORATE PROFITABILITY. SUCH PROFITS ARE, OF COURSE, THE MAJOR INCENTIVE FOR ADDITIONAL INVESTMENT AND AN IMPORTANT SOURCE OF FUNDS FOR FINANCING OUTLAYS, ALONG WITH VARIOUS EXTERNAL SOURCES.

UNFORTUNATELY, CORPORATE PROFITS ARE TOO OFTEN THOUGHT OF AS AN UNNECESSARY CLAIM REQUIRED BY GREEDY BUSINESSMEN RATHER THAN THE BASIC INCENTIVE IN OUR ECONOMIC SYSTEM. ACTUAL EARNINGS OF BUSINESS FIRMS ARE FAR BELOW WHAT THE GENERAL PUBLIC -- AND SOME MEMBERS OF CONGRESS -- PERCEIVE THEM TO BE. IN FACT, CORPORATE PROFITS WILL HAVE TO IMPROVE SUBSTANTIALLY IN ORDER TO PROVIDE THE NECESSARY INCENTIVES AND TO MAKE THE NECESSARY CONTRIBUTION TO FUTURE INVESTMENT OUTLAYS. MY CONCERN IS THAT THE NEGATIVE ATTITUDES ABOUT PROFITS HELD BY MANY AMERICANS MIGHT BECOME AN UNFORTUNATE PART OF PUBLIC POLICY. WE MUST AVOID LEGISLATION AND REGULATION THAT IS PUNITIVE OF PROFITS HONESTLY EARNED. THE RESULT COULD ONLY BE THAT CAPITAL FORMATION WOULD BE INHIBITED, AND THE REAL PURCHASING POWER OF WAGE EARNERS WOULD RISE MORE SLOWLY. WE MUST ALWAYS BE ALERT TO THE FACT THAT PROFITS TRANSLATE INTO JOBS, HIGHER WAGES, AND AN INCREASED STANDARD OF LIVING FOR ALL OF OUR PEOPLE.

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CONCLUSION

STANDING BACK FOR A MOMENT, WHAT, THEN DO WE SEE?

-- A NATION THAT IS STILL INCREDIBLY STRONG, POWERED BY THE LARGEST AND MOST DYNAMIC ECONOMY IN THE WORLD;

-- BUT A NATION THAT IS BEGINNING TO SUFFER ECONOMICALLY BECAUSE IT IS DIVERTING SO MANY OF ITS RESOURCES INTO NON-PRODUCTIVE USES AND SO FEW INTO INCREASING ITS OWN PRODUCTIVE CAPACITY AND CREATING NEW JOBS FOR ITS PEOPLE;

-- AND A NATION WHOSE FUTURE GROWTH AND PROSPERITY WILL REQUIRE IT TO TRIPLE ITS LEVEL OF CAPITAL INVESTMENT.

SOME OBSERVERS HAVE CONCLUDED THAT IT WILL NOT BE POSSIBLE TO MEET OUR FUTURE CAPITAL INVESTMENT NEEDS. I DISAGREE. WITH AN ECONOMY AS POWERFUL AS OURS AND WITH OUR TRADITION OF SOUND ECONOMIC MANAGEMENT, I FIRMLY BELIEVE THAT WE ARE CAPABLE OF ACHIEVING OUR BASIC INVESTMENT GOALS.

I ALSO BELIEVE, HOWEVER, THAT WE HAVE OUR WORK CUT OUT FOR US. OUR INVESTMENT NEEDS REPRESENT ONE OF THE MOST FORMIDABLE ECONOMIC CHALLENGES OF OUR LIFETIME. TWO DAYS AGO, I TESTIFIED BEFORE THE SENATE FINANCE COMMITTEE ON THESE NEEDS, MAKING MANY OF THE SAME POINTS THAT I HAVE STATED HERE, AND I FOUND THERE AS I HAVE FOUND ELSEWHERE IN THIS CONGRESS A DEGREE OF AWARENESS AND APPRECIATION FOR OUR CAPITAL INVESTMENT NEEDS THAT MIGHT SURPRISE MANY OF YOU. YET IT IS EQUALLY CLEAR THAT THE INCENTIVES THAT MUST EXIST FOR THE BUSINESS AND FINANCIAL COMMUNITIES TO RESPOND TO THIS CHALLENGE WILLNOT BE UNILATERALLY CREATED IN THE HALLOWED CHAMBERS OF OUR CONGRESS. THE MANTLE OF RESPONSIBILITY IN OUR FREE ENTERPRISE SYSTEM STILL RESTS WHERE IT BELONGS -- ON THE SHOULDERS OF MEN LIKE US.

IN THE RECENT PAST, AMERICA HAS SUFFERED MORE THAN ITS SHARE OF DEFEATS. SOME OF THEM WERE PERHAPS EXPECTED, OTHERS

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WERE NOT. IT TROUBLES ME DEEPLY, HOWEVER, THAT SOME OF OUR GOALS WERE GIVEN UP WITH SO LITTLE PUBLIC CONCERN. THAT MUST NOT BE THE CASE IN OUR EFFORT TO ACHIEVE GREATER ECONOMIC GROWTH. WHAT IS AT STAKE IS NOT SIMPLY OUR STANDARD OF LIVING BUT OUR WHOLE ECONOMIC SYSTEM, AND INDEED, A VERY LARGE MEASURE OF OUR FREEDOM. SURELY, THAT EFFORT DEMANDS OUR UNFLINCHING SUPPORT.

THANK YOU.

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4-09

AGREED STATEMENT FOR THE PRESS

The Joint US-USSR Commercial Commission, meeting in Moscow for its fifth annual session, has completed a wide-ranging review of trade issues and has renewed the determination of both governments to remove the barriers which prevent full development of trade between them.

During the two days in which the Commission was meeting, the leader of the U.S. delegation, Treasury Secretary William E. Simon and Acting Commerce Secretary John K. Tabor were received by Leonid Brezhnev, General Secretary of the Communist Party of the USSR. The leader of the Soviet delegation, Minister N. S. Patolichev, took part in the meeting.

Both parties in the commission meetings expressed their regret that it has not yet been possible to bring into force the 1972 Trade Agreement, complicating efforts to strengthen their trade and economic relationships. The Soviet Section, under the chairmanship of Mr. N. S. Patolichev, Minister of Foreign Trade of the USSR, stressed that maximum development of trade would depend upon the normalization of trade and financial relations. The U.S. Section affirmed the determination of the U.S. Administration to work with the American Congress in obtaining enactment of legislation to hasten the normalization of trade and financial relationships between the U.S. and the USSR.

At the same time, both delegations expressed satisfaction that, despite the difficulties of the past year, bilateral trade

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continues at a high level. While Soviet agricultural imports declined in 1974, the overall volume of trade last year was approximately $1 billion -- four times what it was in 1970. The general expectation of the commission was that bilateral trade would reach at least $1 billion in 1975 and might well exceed that figure. Both sides agreed that in the near future they would start work on the preparation of targets for the next three to five year period.

Another advance noted in the discussion was the progress made under the Long Term Economic Agreement of June 29. 1974 The purpose of that agreement is to assist appropriate organizations, enterprises and firms of both countries in identifying the fields of cooperation most likely to provide a basis for mutually beneficial contracts An Experts Working Group established under that Agreement has already met once in Moscow (February 12-14) and exchanged information and forecasts of the basic economic, industrial and commercial trends in the two countries. Because the results of that meeting proved to be highly fruitful, the Commission was agreed to schedule a second meeting in Washington during the first six months of 1976. In addition there was agreement on the need to exchange information on economic, industrial and foreign trade trends in the two countries during the first half of 1975, and also to organize in 1975 seminars and joint specialized meetings to exchange information on the organizational and legal aspects of trade between the Soviet Union and the United States.

In addition, during the two-day session, the Commission:

-- Heard reports and exchanged views on the status of discussions between Soviet foreign trade organizations and US companies on a number of cooperation projects, including those such as exploration for oil and gas, expansion of the pulp and paper industry, machine-building, and the manufacture of energy-consuming products;

-- Heard a report from the US-USSR Trade and Economic Council on its efforts in assisting business circles in both countries in identifying possibilities for expanded trade and economic cooperation;

-- Reaffirmed its intention to facilitate, as appropriate, the issuance of visas including multiple entry visas, to representatives of organizations, enterprises and firms and their travel for business purposes; and

-- Agreed to promote trade and cooperation between the civil aviation industries of the two countries by favoring acceleration of arrangements for negotiations on a Bilateral airworthiness agreement.

In general, the sessions were marked by a belief that bonds between the two countries were gathering strength and by a mutual determination to overcome the remaining impediments to the normalization of trade. Both delegations also agreed that despite occasional strains during the past year, the meeting in Moscow has helped to generate a new sense of forward momentum in trade relations between their countries.

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The Commission expressed satisfaction with the results of the 5th session, considering that discussion that took place would help to normalize and develop long term and mutually beneficial trade and economic relations.

An understanding was reached to conduct the next (sixth) session of the Commission in 1976 in Washington.

The US Delegation expressed sincere gratitude for the warm hospitality extended to it by the Soviet side during its stay in the USSR..

I can't tell you what a thrill it is for me to be here at Cottey today. It's a double thrill since I was able to bring my Cottey roommate of 29 years ago, Earlene Lorette Herman, back with me.

Earlene and I see many changes as we walk around the campus. "Old Main" and Neale Hall, and PEO Hall are familiar to us, but the other buildings are new. All of "our" faculty are gone, of course, and some of the old rules and regulations have disappeared as well, although who knows, with the current craze for nostalgia, they may be back in style some day.

I remember that in the "old days" -- they were our young days -- Earlene and I were required to wear hats and gloves even when we walked to downtown Nevada. And I received more than a few demerits for wearing trousers to study in the library on weekends.

Remarks by the Honorable Francine I. Neff, Cottey College, Nevada, Missouri, on May 11, 1975.

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Well, times change, as I learned when my daughter Sindle went to Cottey 1968-1970. But the feeling you have now hasn't changed -- the feeling that graduation is a formal turning point in your lives -- and the question is what will happen next?

After today, all of you, and I, too, will go our separate ways. But for this moment we are together, sharing our common bond as Cottey graduates or about-to-be-graduates. So in this time together, I would just like to talk with you about some of the things Cottey gave <u>me</u> that I still value after more than a quarter of a century of life "afterwards."

High on my list of benefits would have to be enduring friendships. My former roommate Earlene, is now living in the same apartment building in Washington, D.C. And another Cottey roommate is today a prize-winning painter in San Antonio, Texas, where I visited her about a month ago.

Because ours is a small, closely-knit school, I think that you, too, will maintain contact through the years with your special friends from here. Cherish them well, because you never really lose your youth as long as you have old friends from your young days who remember you not as you are, but as the skinny funny girl that you <u>were</u>.

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A second reason I loved Cottey is that it prepared me to study and to grow intellectually. I came from a very small town in New Mexico, and Cottey helped me to make the transition from my hometown to a large state university. I doubt if I could have done nearly as well without this cultural, social and scholastic enrichment.

Third, Cottey developed my intellect. Through books, it introduced me to some of the world's great thinkers. Through music and art, it introduced me to the so-called finer things of life. And through contact with the faculty, it stimulated my desire to learn.

I know it is fashionable among some people today to ridicule the whole idea of higher education. One writer has remarked that an A.A. degree means only that you have mastered the first letter of the alphabet. And the author Caroline Bird, in her recent book, "The Case Against College" refers to higher education as "voluntary servitude" in a "padded playpen."

I vehemently disagree. I am happy to note that enrollment in American colleges and universities doubled in the last 15 years. But I <u>am</u> disturbed that in our national quest for a quantity of degrees, we are losing out on quality. I was, for example, sorry to read the other day that some college textbooks have been rewritten in a simpler language because so many college students today cannot read at the traditional college level. And

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I'm told that at the University of California, almost half of the freshman class take remedial English.

Cottey has prepared you well for further academic work -- and you will find this a daily help and pleasure wherever you go.

A greater understanding and respect for other women is another legacy. Earlene and I were students years before women's lib or Equal Rights Amendments or International Women's Year came along. But we had so-called "role models" -- achieving women -- here on campus to observe, and we had opportunities to become leaders ourselves in a supportive environment. I'm pleased that women's colleges everywhere are staging a quiet comeback.

Cottey also helped to shape my feeling that I owed my community something in the way of return volunteer service. Studies show, in fact, that graduates of small, liberal arts colleges are those who, in later life, <u>are</u> most actively involved in community affairs.

As a young wife and mother I volunteered my services for everything from the P.T.A. to the GOP. I had been a volunteer for all kinds of causes for over 25 years when I was asked to become United States Treasurer. I accepted the new role -- my children were grown and my household was more or less running itself -- after considerable hesitation. But I felt I could make an honest contri-

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bution to our government from my viewpoint as a wife and mother. And, after I had urged other women to use their talents, how could I back down when this splendid offer came?

I have been Treasurer for almost 11 months now, and my days are a race between exhilaration and exhaustion. In addition to the traditional jobs, I am the first woman National Director of the United States Savings Bonds Division.

Our Division has less than 460 full-time employees, but we have thousands of unpaid volunteer Savings Bonds workers all over America. And I enjoy working with them -- I feel at home with them -- because of my many years of volunteer service.

Since my swearing-in last June, I've traveled to 27 states on business; been given the keys to the cities of St. Louis, San Diego, Albuquerque, and Dayton, Ohio; and received an honorary Doctor of Humane Letters from a New York college. I've been greeted at airports by everything from red carpets and military escorts to announcements that my plane will be three hours late and they can't find my bags.

In between business trips, I work many ten-hour days in Washington. I enjoy most of my new life -- and especially this weekend at Cottey. I look upon myself as a wife, mother and citizen who took the volunteer route to a career. And I thank Cottey for encouraging

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me to feel a deep concern for my community.

Finally, Cottey gave me a firmer perspective on my own life and personal values. Like you, I was concerned with self identity and similar questions. I do not believe I could have coped with life nearly as well at a large school. The cry of the young -- for a sense of selfhood, for a human-size community -- is the very cry that small colleges can best answer.

Discipline, knowledge, friendship and a concern for others are some of the lasting benefits I took with me from Cottey, and I think they will be yours as well.

But today, you are more concerned with the _future_. As you sit here, all alike in your white caps and gowns, but so individual underneath these graduation clothes, you naturally wonder where you will go -- what you will do -- who you will _be_ -- now that these Cottey days are over. You wonder how life will change you and whether your mind or your waistline will expand the most.

I've been searching _my_ mind to decide what I could say about your future that would be helpful. I've found that my thoughts aren't very original. But, for whatever they're worth, here is the most honest advice I can offer.

First, have a goal -- your own goal, not necessarily that of your teachers or parents. Your goals will change, as you grow and change. But believe in _something_, or

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happiness will never have a chance to warm your life.

Keep your goals flexible. We seldom know our lifetime scenerios in advance. When my friend Earlene graduated from Cottey, she took an office job, married, had children, and then, after many years, went back to school, received a master's degree and is now in my office in Washington.

In my case, I never dreamed that volunteer work would lead to signing my name on our dollar bills. But every small step along the way led to another step and another goal. Something similar will happen to you.

Work hard at whatever you choose. Build castles in the air, and then put foundations under them. I'm thinking now of one of my Cottey classmates, Dr. Barbara Lagerstedt Knudson, who was the first dean of University College at the University of Minnesota. And of Dr. Dora Strather, class of '41 at Cottey, who was the first woman to earn a Ph.D. in aeronautical education and who set world records in flying; and of Kelly Smith Tunney, class of '60, who was a well-known Associated Press writer until she opted for marriage and children and a home in Hong Kong. None of them settled for a life that was either second-hand or second-best.

If you have a career -- do a terrific job. If you choose marriage and motherhood -- give that your best.

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And by the way, I'd like to put in a few good words for that much maligned institution right now.

Marriage and motherhood are not for all women, just as marriage and fatherhood are not for all men. But no matter how many communes are formed, marriage and the family keep coming back in style.

I personally wouldn't have it any other way. My 27 years with a terrific husband are still exciting, except maybe for mopping the kitchen floor. And my two children, now in their twenties, have given me more laughter and tears than any two people alive.

Never stop growing. Life is not a station you arrive at, but a way of traveling. Go first class, and go all the way. Be one person today, and another person five years from now when you come back for a class reunion. Life _is_ change -- but _you_ can determine a great deal about which way you change.

Continue to cherish people. Seek the friendship of people you can relate to in happiness and respect, and give your own friendship generously. I am blessed at this time in my life because I am living and working with not only Earlene, my Cottey friend, but another roommate sorority friend from the University of New Mexico, and still a third friend from Albuquerque. Altogether they represent 64 years of friendship.

Don't forget the moral basics of life. I do not know what you expect of yourself. But what God expects of you can be summed up in one line from the Bible, when the prophet Micah says, "For what doth the Lord expect of thee but to do justice and to love mercy and to walk humbly with thy God?" That one sentence is a whole moral philosophy.

Finally, laugh a lot. Today we are sometimes made to feel that happiness is selfish, as though our laughter and enjoyment diminish other people. But it's exactly the opposite. Laughter is life-giving. It is joy, rather than anguish, we should seek as the ideal.

I have mentioned very little about war, hatred, or economic upsets. These are the daily staples of the nightly newscasts; and it is true that if you want a quiet, uneventful life, then you are living in the wrong century.

But I have wanted to talk with you of other things just as important, but seldom discussed. I have wanted to remind you again that the world holds love and laughter, and wonderful opportunities to use every ounce of your brains and heart and spirit for the rest of your long lives.

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If the new life you are about to start is kind, rejoice and enjoy and help others.

If life hands you a lemon instead, then go make lemonade -- and make the best darn lemonade in town.

Cottey has given you all it can.

Now go on to learn more, give more, laugh more and live more elsewhere.

And know that you go with my very best hopes and prayers for your future.

Thank you.

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

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FOR IMMEDIATE RELEASE APRIL 11, 1975

PLANS ANNOUNCED FOR SPECIAL PAYMENTS TO
SOCIAL SECURITY AND RAILROAD RETIREMENT BENEFICIARIES

The Treasury Department today announced that planning has been completed for the special, one-time payments of $50 authorized for recipients of social security, supplemental security income, and railroad retirement benefits under the Tax Reduction Act of 1975, Public Law 94-12. The Social Security Administration and the Railroad Retirement Board are cooperating with the Department in the special payment program.

The $50 payments will be issued to the more than 34 million individuals under the above programs who are paid a regular benefit for the month of March 1975. Those individuals who receive benefits under two or more of the programs will be entitled to only one $50 payment. The conventional green Treasury checks will be used for these payments.

Treasury disbursing offices will begin issuing the special payments in early May 1975, subject to enactment of appropriations by the Congress as required by the Act, but due to heavy workloads resulting from tax rebates to individual taxpayers authorized under the same Act, will not complete the mailing until about June 20. Recipients should not be concerned, therefore, if their checks do not arrive during the latter part of May or early June. However, if a payment does not arrive by June 30 individuals entitled to the special payments should contact their regular benefit office.

Attached are questions and answers containing additional information.

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Attachment

Note to Correspondents
Press contacts:
Disbursing Matters (Tsy) - James Abbott, tel: 202/964-2601
Benefit Matters (SSA) - Michael Naver, tel: 301/594-2200

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QUESTIONS AND ANSWERS ON SPECIAL $50 PAYMENT

1. QUESTION: Is the special $50 payment a social security benefit?

ANSWER: No. Under the Tax Reduction Act of 1975, Congress emphasized that the $50 payments to people who get social security, supplemental security income, and railroad retirement benefits are not social security benefits. Rather, they are intended to give aged, blind, and disabled people a payment comparable in nature to the tax rebates which the new law provides to those who are working.

2. QUESTION: Why did Congress vote this payment?

ANSWER: Congress has stated that the purpose of the special $50 payment is the same as that of the tax rebates--to inject new spending money into the economy to help the nation's economic recovery.

3. QUESTION: Where does the money for the special payment come from?

ANSWER: The payments are financed from general revenues of the U.S. Treasury. They do not come from social security trust funds.

4. QUESTION: Can I receive both the special $50 payment and a 1974 tax rebate?

ANSWER: Yes, as long as you meet the eligibility requirements for each.

5. QUESTION: When will my $50 special payment come?

ANSWER: Assuming enactment of the necessary appropriation, the majority of the payments will be mailed out by the Treasury Department beginning in early May and continuing to about June 20. The payment will come automatically. You don't need to apply.

6. QUESTION: What do I do if I haven't received my check by about June 20?

ANSWER: Please wait until the end of June before you do anything. Your check may be on its way to you. If you get social security or SSI, and the special $50 payment has not arrived by the end of June, call your local social security office. Railroad retirement beneficiaries should get in touch with the nearest Railroad Retirement Board Office.

7. QUESTION: How will I recognize my special $50 payment?

   ANSWER: The $50 special payment will be paid in a green U.S. Treasury check mailed in a brown envelope. A notice inside the envelope will tell you what the check is for.

The questions and answers given below apply to railroad retirement benefits as well as social security benefits.

8. QUESTION: My husband and I both get social security. Do we each get $50.

   ANSWER: Yes.

9. QUESTION: I'm a widow with eight children and we get social security. Do I get a separate $50 payment for myself and $50 for each child?

   ANSWER: Yes. You will get a $50 check for yourself and another check which will include a $50 payment for each of the children.

10. QUESTION: Will my $50 payment be included with my social security check?

    ANSWER: No. The $50 payment will come in a separate check.

11. QUESTION: Will the payment count as income to reduce my SSI, food stamps, Medicaid, or any other assistance I may be getting?

    ANSWER: No. The Tax Reduction Act expressly provides that the payments will not be counted as income or resource for calendar year 1975 for purposes of such assistance programs. Also, the payments will not count as taxable income.

12. QUESTION: I applied in March for social security, but they told me that I wouldn't get my check until June. Do I get the $50 special payment?

    ANSWER: Yes. As long as you applied for social security before April 1, and you receive a check for the month of March issued no later than August 31, you will get a $50 special payment.

13. QUESTION: I received my first social security check April 3. Does this mean that I missed the March eligibility deadline for the $50 special payment?

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ANSWER: No. The social security check you received in April is payment for March. Under social security your April 3 check is payment for the previous month.

14. QUESTION: I received my first SSI check in April for the month of April. Does this entitle me to the $50 payment?

ANSWER: No. Since entitlement to SSI benefits is based on need, the check comes in the same month as the month of eligibility to meet current needs. You would have had to get an SSI check for March, issued by August 31, 1975, to be eligible for the $50 special payment.

15. QUESTION: I receive both social security and SSI. Does this mean I will get two $50 payments?

ANSWER: No. Each eligible person gets only one $50 payment.

16. QUESTION: I get a special age 72 payment from social security each month. Do I get a $50 payment too?

ANSWER: Yes.

17. QUESTION: I'm eligible for social security but I didn't get a check for March because I was working. Am I eligible?

ANSWER: No. People whose social security check for March was withheld because of work do not get the $50 special payment.

18. QUESTION: I get social security, but I didn't get a check for March because I owed the Government for a previous month's overpayment. Am I eligible?

ANSWER: Yes. Although you did not receive a check, you were, in effect, paid for March.

19. QUESTION: I am eligible for social security because I am a widow with minor children in my care. However, the children were not in my care in March. Am I eligible?

ANSWER: If you did not receive a check for the month of March because the children were not in your care, you will not receive the $50 special payment.

20. QUESTION: I think I am eligible for social security, but my case is being appealed. Will I get the special payment?

ANSWER: Only if you receive a check for the month of March issued by August 31.

21. QUESTION: I applied for social security in March because I was eligible, but I decided not to take my first check until May. Will I get the special payment?

ANSWER: If you change the month in which you elect your benefits to start from May to March you can get the special payment. See your social security office.

22. QUESTION: I got a social security payment for March but it was reduced because of my work. Do I still get the $50 special payment?

ANSWER: As long as you received a social security check for March, no matter how small, you are eligible for the $50 special payment.

23. QUESTION: As of March, I am entitled to social security father's benefits based on the Supreme Court decision in March. Will I also get the special payment?

ANSWER: Yes, if you applied before April 1 and if your March check is issued by August 31. Even if you applied before April 1 only for lump sum death benefits, that application holds for all social security benefits due you, including the new court-ordered father's benefits.

24. QUESTION: You said the special payments will be mailed out by June 20. How do I get mine if my eligibility is not established until July or August?

ANSWER: After June 20, the special payments will be sent out monthly as the lists are updated. If you receive in August a social security check for the month of March, chances are your special payment will arrive by the end of August or the middle of September.

25. QUESTION: How will the special payment affect the benefit increase social security beneficiaries are supposed to get this year?

ANSWER: The special payment will have no effect on any future benefit increases.

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

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FOR IMMEDIATE RELEASE May 12, 1975

COINAGE STUDY CONTRACT AWARDED BY MINT (TREASURY)

Director of the Mint Mary Brooks announced today that a contract to conduct a comprehensive review of U. S. coinage requirements to the year 1990 has been awarded to Research Triangle Institute of Park, North Carolina.

The study will examine methods for projecting long and short range coin requirements, and the system for production, inventory, and distribution needed to meet these demands. Consideration will be given to options for changes in coin denominations, including size, shape and composition of future coins. Public acceptability and the economic effects of following different coinage options will be a primary part of the study.

Ten bids were received for this project. The winning bidder, Research Triangle Institute, is experienced in demand forecasting and other economic projections, as well as analysis of production inventory and distribution systems, and market research. The company is also highly qualified in metallurgy and other technical skills required to assess alternative materials for coin composition.

The study will begin immediately and is scheduled for completion in twelve months. Project Manager is Mr. John Buck, of the Treasury's Office of Management and Organization.

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Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
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FOR IMMEDIATE RELEASE May 12, 1975

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE HOUSE BANKING CURRENCY AND HOUSING COMMITTEE
WASHINGTON, D.C., MAY 12, 1975

Mr. Chairman and Members of the Committee:

Before commenting specifically on H.R. 6676, I would like to express my appreciation to the Chairman and the Committee for these hearings which will help focus attention on a matter of vital importance to our financial system and, indeed, to our economic system.

As the Committee will recall, I have testified previously about my deep concerns with the philosophy of credit allocation. I would like to refer to a portion of the testimony I gave on H.R. 212 the so called "Lower Interest Rate Act of 1975."

> "Americans have always relished their freedoms, and building upon those freedoms we have created an incredibly complex and innovative economy. Our economy is not only the largest but the most sophisticated in the world. We have an estimated 35,000 financial institutions in this country employing hundreds of different credit instruments within the almost as many different financial markets. No one knows Precisely how many loans are made each year, but the figure must be in the billions and the number of different credit transactions must run into the trillions.
>
> Does anyone honestly believe that government bureaucrats -- counting the best and the brightest among them -- can or should be the ultimate arbiters of how each of these loans is to be made?
>
> Within the words of this statute, how could we trust a federal official, however well-intentioned, to answer the questions that would quickly pile up in Washington?"

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I am sure that supporters of H.R. 6676 will argue that the present bill is not a credit allocation act because it merely sets up a data collection system for the reporting of credit extensions by commercial banks categorized by certain broad national priority uses.

I disagree. I consider the potential and implied threats posed by this bill to be as severe as the threat which was embodied in H.R. 212.

By its own statement of purpose, this is a bill "to maximize the availability of credit for national priority uses." Is it not reasonable to conclude that commercial banks reporting credit extensions not included in the specified national priority list will be under pressure to conform and if conformity is not forthcoming, that quotas will be established for so-called national priority uses?

There is no way that I can interpret subsection 2e except as an effort to exercise direct Congressional control over specific uses of bank credit, with the Federal Reserve System serving as an intermediary. Even assuming that I am in error and that the intent is only to assure that the Congress is fully informed as to the uses of our limited supply of credit, H.R. 6676 will not serve that purpose.

In fact, the information that would be collected would be largely meaningless. In the first place, money is fungible. Ultimately, there is no way for a lender to be certain of the end use of the proceeds of any particular borrowing.

Secondly, the wording of the eight national priority categories calls for value judgments on the part of the Federal Reserve Board and the reporting banks. I sincerely doubt whether there would be agreement, even among the members of this Committee, as to whether any given loan for capital investment was for "productive" or non-productive purposes or whether equipment purchased was "essential." Who is to say what constitutes a "normal" working capital need in an economic environment where change and flexibility are the rule rather than the exception? This attempt to describe in a few simple definitions what are essentially complex value judgments seems to me to be of questionable value, even assuming the best efforts at good faith compliance.

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Moreover, in focusing on commercial bank loans, this bill ignores substantial and important sources of credit for all of the national priority purposes which it has identified. It does not inquire into the lending of savings banks, which provide a large part of housing credit and also make other loans; by credit unions, which are important consumer lenders but also make investments; by insurance companies, both life and casualty, which are important sources of funds for a wide range of activities; and by other financial intermediaries.

An additional problem presented by H.R. 6676 is the uncertainty that it may generate among borrowers who perceive that specific credit allocation is certain to follow. In order to obtain protection from such an eventuality, they may rush to obtain funds for purposes which we believe to be outside the boundaries of this legislation. This would divert funds from the purposes which the drafters of this bill are seeking to support, and thus could partially frustrate the basic intent of the legislation.

But let me raise even more fundamental questions. If one assumes that the eight categories of loans are meaningful -- and I do not -- it is still highly questionable whether this approach would solve the problems of the allocation of credit resources among all the competing demand more efficiently than our free market system.

The bill speaks about national priority uses and asks for reports of the amount of credit devoted to each. Presumably the Committee will attempt to evaluate those reports as though there were some optimum amount of credit that ought to be allocated to one use or another. The Committee knows, however, that such absolutes do not exist. Rather, the question is whether the particular amount shown in each category is the proper amount. How can aggregated and partial statistics help to answer this question?

This Government has already experimented with credit allocation on a very large scale. Indeed, in the current fiscal year and in the next fiscal year, about 50 cents out of every credit dollar will, in effect, be allocated by the Federal Government -- either borrowed directly to finance Government spending and lending or indirectly channeled to particular uses through guarantees to private borrowers.

One of the most useful things this Committee could do would be to investigate the consequences of this massive allocation of credit by the Federal Government.

All of us must ask whether these programs have provided adequate benefits for those they are intended to help and whether these benefits outweigh the costs of diverting funds from other, often more productive uses. In most instances the Federal credit allocation which already exists has been away from productive investment and toward uses in which productivity is low. As a result we may have sacrificed real national growth which would have provided greater benefits for everyone.

Mr. Chairman and Members of the Committee, H.R. 6676 is unworthy of this Committee's support. I urge that you disapprove it and instead turn your energies to the consideration of other measures which will strengthen our economy and thereby contribute to our nation's future prosperity and liberty.

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

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FOR IMMEDIATE RELEASE May 12, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.8 billion of 13-week Treasury bills and for $2.8 billion of 26-week Treasury bills, both series to be issued on May 15, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing August 14, 1975			26-week bills maturing November 13, 1975		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.693	5.171%	5.33%	97.250 a/	5.440%	5.69%
Low	98.689	5.186%	5.34%	97.211	5.517%	5.77%
Average	98.690	5.182%	5.34%	97.229	5.481%	5.73%

a/ Excepting 1 tender of $300,000

Tenders at the low price for the 13-week bills were allotted 100%.
Tenders at the low price for the 26-week bills were allotted 78%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 40,385,000	$ 24,280,000	$ 22,880,000	$ 7,595,000
New York	4,755,680,000	2,034,730,000	3,969,540,000	2,328,840,000
Philadelphia	64,510,000	23,485,000	11,470,000	11,090,000
Cleveland	78,650,000	32,475,000	54,515,000	52,315,000
Richmond	24,115,000	18,940,000	39,590,000	30,770,000
Atlanta	31,510,000	25,380,000	47,920,000	32,635,000
Chicago	468,690,000	36,545,000	234,830,000	121,255,000
St. Louis	56,695,000	24,195,000	46,740,000	36,540,000
Minneapolis	22,550,000	5,600,000	25,610,000	22,610,000
Kansas City	44,910,000	29,485,000	23,040,000	17,080,000
Dallas	33,770,000	18,770,000	26,200,000	18,760,000
San Francisco	803,835,000	530,120,000	328,535,000	120,655,000
TOTALS	$6,425,300,000	$2,804,005,000 b/	$4,830,870,000	$2,800,145,000 c/

b/ Includes $366,600,000 noncompetitive tenders from the public.
c/ Includes $156,235,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

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 UPON DELIVERY
Monday, May 12, 1975

FOR INFORMATION CALL:
(202) 456-6757

REMARKS OF ALBERT REES
DIRECTOR OF THE
COUNCIL ON WAGE AND PRICE STABILITY
BEFORE THE
SPRING BOARD MEETING OF THE
NATIONAL CANNERS ASSOCIATION
WILLIAMSBURG, VIRGINIA
MAY 12, 1975

From the beginning of our current efforts to bring inflation under control, we in the Council on Wage and Price Stability have had a special interest in the price of food. It is for that reason that I am particularly glad to be able to meet this morning with representatives of such an important segment of the food industry.

As you know, the recent news on food prices for consumers has been very good. In March, the Consumer Price Index for food, seasonally adjusted, was down 0.5 percent, and for food consumed at home it was down 0.9 percent. We know that further price reductions have taken place in April and May, and that canned foods have participated in these price declines.

The Council on Wage and Price Stability has helped to restrain the cost of canned foods. In our discussions with the steel industry last December, we persuaded several companies to roll back a large part of their announced price increases for tinplate, the material from which food cans are made. We have also been making a study of the can manufacturing industry, which will be completed very soon. Finally, we held hearings on the price of sugar that helped to mobilize consumer resistance to high sugar prices, and, as you all know, the price of sugar has since fallen substantially. This is good news for canners of fruit and other sweetened products.

But, although the news about food prices has been good in recent weeks, there are threats on the horizon that could produce higher food prices in the future. One of these was the farm bill passed by the Congress last month, which would have raised loan and target prices for crops very substantially. This could have resulted in the diversion of acreage from badly needed food to cotton, which is already in substantial surplus. Fortunately, President Ford has vetoed this bill and we feel confident that his veto will be sustained.

A second threat to lower prices that is always present is bad weather. If the United States or other major food producing countries have smaller than normal crops in 1975, this could send food prices upward again.

The final threat is the possibility of sharply higher costs of food distribution which could raise the margin between farm prices and retail prices. These farm-to-market spreads, which rose substantially in 1974, have narrowed in recent weeks, but long-run forces are tending toward further increases.

The costs of food processing and distribution include payments by processor and distributors for fuel, interest, transportation, local taxes, and, most importantly, wages. If wages rise faster than productivity, unit labor costs must rise, and this must ultimately be reflected in retail food prices. I am disturbed both by the size of some recent wage settlements and by new impediments to the improvement of productivity.

Some recent collective bargaining agreements in the retail food industry have provided for increases in wages and benefits in the first year of 12 to 16 percent. Some of these increases can be explained as catching up with previous increases in the cost of living or as correcting inequities between crafts or between geographical areas. But, however they are explained, the customer must pay for them in higher food prices. Management spokesmen tell me that they feel powerless to resist what they regard as excessive wage demands and some call for changes in labor laws to rectify alleged imbalances in bargaining power. Perhaps such changes should be considered. However, I am not convinced that management is generally using its present powers effectively. Too often there is little unity among the mangement parties to the same negotiation, and too often management waits until the last possible moment to do realistic bargaining. In too many cases, management is being outgunned and outmaneuvered by able union leaders who know their business and work hard at it.

The rapid rise in wages would be far less disturbing if there were also rapid rises in productivity, but recently productivity in the nonfarm economy has been falling. The short-run drop in productivity is, of course, an effect of the recession and will be reversed during the coming recovery. But even the longer run trends in productivity have been somewhat disappointing.

One of the major sources of gains in productivity is technological change, and few technological changes in food distribution have the potential for increasing productivity as much as the automated checkstand in retail food stores, where a laser beam reads quickly and accurately the Universal Product Code which all of you print on your labels. This device improves inventory control, saves labor, and speeds the customer through the checkout with an itemized receipt listing every item purchased and its price. Much of the labor is saved because the Universal Product Code makes it unnecessary to mark or stamp the price on every can or package. Unfortunately, food chains that are attempting to test consumer acceptance of this system are being picketed by consumer groups and unions, so that a fair test has not yet been possible.

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Because of the high turnover of personnel in retail food stores, the labor saved by the automated checkstand can be saved through attrition, and no one needs to be laid off. Nevertheless, it is understandable that unions oppose the device. What I cannot understand is why consumer groups oppose it; and why, even before the system has had a fair trial, they sponsor legislation to require price markings on cans and packages. To give shoppers the ability to read the price in the brief time after the can has been taken from the shelf and before it has been checked out, the consumer organizations are apparently willing to sacrifice some of the labor cost savings that make possible a system which will bring not only cheaper food, but speedier service and accurate charges. I find it difficult to believe that this represents the true preferences of their own members, but I would be happy to consider evidence that I am wrong. I hope that our legislators will be willing to give the new system a fair trial, and will not rush to pass laws that will permanently raise food costs and prices.

A second potential source of productivity gain in food distribution is the elimination of empty backhauls by private motor carriers. Here again recent news has not been good. The Interstate Commerce Commission currently prohibits one subsidiary of a corporation from hauling freight for either the corporate parent or for another subsidiary of the same corporation except on a gratuitous basis. If even an "accounting price" is charged, the service is considered to be "common carriage" subject to ICC rate and entry controls. There is strong evidence that this policy substantially impairs the productivity of private trucking fleets and wastes scarce fuel. In January, the Council on Wage and Price Stability filed a statement with ICC in support of a request by the Private Carrier Conference of the American Trucking Association that this ICC policy be modified. As yet, no decision has been made on this request.

Another cause of empty backhauls is the interpretation of the Robinson Patman Act by the Federal Trade Commission which suggests that backhaul allowances based on actual freight costs might not be consistent with the Act. This unfortunate interpretation has recently been restated by FTC in reply to a letter from Consumers Union. Our legal staff believes that Robinson Patman permits differences in prices and rates when based on costs, and believes that actual cost backhaul allowances meet this test. However, if FTC is going to continue to interpret the Act so as to encourage higher prices for food and the waste of precious fuel, it is my personal view that the Act should be amended or repealed.

I have been talking so far about matters that directly affect the food industry. In the time remaining, I should like to broaden my focus. First, I think that the outlook for price stability on a broader front is very encouraging, although I should warn you that the record of the economics profession in forecasting prices, my own included, is not a good one. My forecasts are not based on any formal econometric model, but rather on our day-to-day work in price monitoring. Several weeks ago, I said that I expected the rate of increase in the Consumer Price Index during 1975

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to be no more than 8 percent, and during the fourth quarter no more than 6 percent. With each passing day, this prediction looks safer, and the chance that we will do even better grows. Moreover, I do not see any reason to expect the acceleration of price increases in the first part of 1976. We feel confident that by then we will be well into a vigorous economic recovery. But there will still be slack in the economy, and productivity will be rising rapidly. Both of these forces will contribute to price moderation. Some private forecasters are predicting a decline in the rate of inflation throughout 1976, and they could well be right.

Let me also touch on the prospects for renewed wage and price controls. Last week, the Senate passed by a vote of 67 to 20 a bill to extend the Council on Wage and Price Stability Act. This bill, as introduced in January, contained several features for delay powers over wage and price increases that were a step back toward controls. Not one of these features survived in the bill passed by the Senate. There simply is no substantial sentiment for controls or anything resembling controls in Congress at this time. The bill passed by the Senate would give the Council on Wage and Price Stability subpoena powers. If this provision is enacted into law, we would plan to use these powers very sparingly, and only in unusual circumstances.

Despite what has happened in Congress, I keep hearing from people in business the view that controls are coming back, and that prices must be kept up to prevent their being frozen at low levels. I cannot imagine where these totally unfounded reports originate. The only possibility of renewed price controls would arise if businesses raised prices without strong reasons based on costs and demand conditions, or failed to pass on decreases in costs to their customers. Then the fear of controls could become a self-fulfilling prophecy. I remain confident that this is not going to happen.

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CWPS- 44

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
726 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20506

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May 12, 1975

For Information Call:
(202) 456-6757

MEMORANDUM FOR CORRESPONDENTS:

Attached for your information is a letter from George Eads, Assistant Director of the Council on Wage and Price Stability for Government Operations and Research, to Roger Strelow, Assistant Administrator of the Environmental Protection Agency, in response to an April 22 letter from Mr. Strelow regarding the Council's staff's April 7th filing before the Federal Aviation Administration regarding the EPA's proposed aircraft noise retrofit regulations.

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CWPS-43

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
WASHINGTON, D.C. 20506

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May 9, 1975

Mr. Roger Strelow
Assistant Administrator for
Air and Waste Management
U. S. Environmental Protection Agency
Washington, D. C. 20460

Dear Mr. Strelow:

Thank you for your letter of April 22, discussing some of the points we raised in our filing before the Federal Aviation Administration Rules Docket regarding the Environmental Protection Agency's proposed aircraft noise retrofit regulations. We have reviewed your comments as you requested but find no reason to change the recommendation stated in our April 7, filing.

Your letter presents no additional analysis or evidence of which we had not already taken account in the April 7, filing. However, perhaps some clarification of the points you raised in the April 22, letter would improve the understanding of our analysis and recommendations.

1. First, on the Significance of Health and Welfare.

The EPA presents no evidence that anyone living around an airport has suffered hearing damage as a result of aircraft noise. As you know, your Leq of 70 dB standard is based on adjustments and extrapolations from a standard of 73 dB for workplace exposure, a figure 12 dB below the eight hour workplace standard proposed by EPA to the Occupational Safety and Health Administration and 17 dB below the standard currently used by OSHA. And, as you may know, the standard of 73 dB has been rejected by the Secretary of Labor as "a criterion for 'material impairment' which can neither be subjectively observed nor instrumentally measured." (See 40 Federal Register 12337.)

Second, we are in full agreement with you that a broad view of what "health" means should be used in evaluating public policy. We agree that "annoyance" to aircraft noise might affect the "Public Health and Welfare" but we reject the notion that annoyance must be reduced at all costs. This is because of the tradeoffs involved. The reduction of this annoyance imposes costs in a world of limited resources that reduces the health and welfare society derives from the other goods, services, and amenities that must be sacrificed to produce the reduction in noise. A further consideration is that according to recent polls the main "annoyance" cited by the majority of Americans is inflation. Certainly a broad view of the public health is necessary to effective public policy making.

2. On the Number of Persons Affected by Aircraft Noise.

In questioning our "statement" that "approximately 2-1/2 percent of the population lies within the NEF 30 dB noise contours." Your letter claims that our figure is incorrect and that actually 7.5 million and 3-3/4 percent are the correct figures. In quoting our statement you left out the word "presently" after "population" and referred to the 7.5 million figure which presumably is from your Project Report, page 10-16, figure 10. This figure, however, refers to the 1972 baseline estimate while we clearly were discussing 1975. As pointed out both in your project report and our filing, the number of people affected by aircraft noise has been declining since 1972 and will continue even with a "do nothing" strategy.

FAA estimates that about 4.9 million people live within the 30 NEF contour. Our estimate of "approximately 2-1/2 percent" implies 5.3 million people given our present 212 million population.

Also note that the 16 million figure quoted in the next paragraph of your letter again refers to 1972. Furthermore, both the FAA and the Department of Housing and Labor Development use the 30 NEF (Ldn 65) noise contours as their acceptability standard.

Our point that noise pollution as distinguished from many other types of pollution that accumulate in the environment over time is a transitory phenomenon, we think, is a valid one. If one used the criteria outlined in your letter it would preclude defining any phenomenon as transitory.

3. The Regulation Mainly Accelerates Benefits That Would Accrue Eventually.

Evidently you do not disagree with this point, but only with the timing. Here we only had the data presented in your Project Report, Figure 13, table 10-20. Observing the warning not to extrapolate between points on the graph, we calculated the time difference between the only two points that could be used. To the extent that your data are correct our analysis is correct. The data presented by your letter are, of course, new to us since they were not presented in your Project Report. They do seem a little startling to us in light of the previous evidence. For example, if one violates the warning and linearly extrapolates the 2-segment line to the 39% benefit level, the time difference is just a little over three years, not ten as stated in your letter.

Nevertheless, whatever the proper time frame our major point as illustrated by Figure 1 remains correct. The benefits provided by the proposed retrofit regulations simply speed up benefit levels that will

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occur naturally with a "do nothing" policy. The benefits as depicted on figure 1 is what EPA should be attempting to measure.

In questioning our statement, you raised the point that the 2-segment landing approach is "uncertain at this point." If this is indeed the case, your cost-effectiveness analysis should be recalculated to take this development into account. The 2-segment approach is relatively cost-effective and when both the cost and benefits of this approach are added to the costs and benefits of the retrofit approach, the cost-effectiveness or desirability of retrofitting is overstated.

Finally, the discussion of the costs of the "do nothing" alternative reveals a misunderstanding of the benefit-cost analysis of public policy. It is true that "enormous capital investment will be required to replace the old, noisy airplanes" but this is not a social cost to society when made in accordance with good business practices and profit maximizing behavior. There always comes a point when replacing old capital equipment with more efficient new equipment is less costly than continuing to operate the old.

Your point that the retrofit regulations would prolong the life of the old noisy airplanes and that this would indeed be good public policy is incorrect on both counts. The retrofit regulations shift the relative cost differential between new quiet and old noisy aircraft in favor of the new quiet aircraft. This result is the opposite phenomenon of the air pollution control devices on new cars leading to higher used car prices. Thus the retrofit regulations can be expected to speed up the shift to newer aircraft. This shift will be aided by the highly developed used aircraft market among foreign airlines not impacted by the regulations. The increase in cost per retrofitted plane is not inconsequential but over $444,000 per plane (800 million ÷ 1800 planes). This estimate coupled with your estimate of an average $8 million cost per new plane (which neglects the trade-in value of the old planes) indicates that rapid replacement of the older aircraft is likely.

On the second count, a good case cannot be made for encouraging the U. S. airlines to retain and retrofit the old airplanes if the new planes are more cost-effective than the old planes (including the additional costs of retrofit). A movement toward cost-effectiveness is anti-inflationary even if it increases spending.

4. Cost-Benefit Analysis.

In quoting our discussion of EPA's cost-effectiveness analysis you left out crucial parts of our sentences. We are well aware that EPA attempted to measure benefits by the percentage of people removed from certain noise contours. Indeed, this method was what we were criticizing.

As the information on page 4 of your letter illustrates, different contour levels provide different results, and there seem to be as many different contour levels as there are investigations. (Note the disagreement on the Washington National Airport contours between the Department of Transportation study and EPA, mentioned on page 5 of your letter.) There is no meaningful way of comparing the number of people brought under a Ldn 80 contour with those brought under a Ldn 60 contour and then relating this to costs.

The attempt to measure benefits by measuring the costs of alternative ways of accomplishing the same goal is a very poor second best solution. First, it is a cost-effectiveness technique, not a cost-benefit technique. Second, the method implicitly assumes that the benefits are infinite and therefore any costs can be justified with just the actual method of accomplishment in doubt. Clearly, the economic reasonableness doctrine indicates that this was not Congress' intent. Third, to be of any use, the alternative least cost method must be the benchmark technique. In the aircraft noise abatement case, the alternative method chosen appears to be one of the highest alternative cost approaches. For example, curfews or restrictions on nighttime operations for certain airports might well be both less costly and achieve greater NEF dB reductions than retrofit regulations. Other methods not considered are various tax schemes on the operations of the greatest noise offenders at the most vulnerable airports. This scheme might lead airlines to reallocate fleet operations in the most cost-effective way. Note that we are not recommending any of these methods, only posing them as examples.

The parts left out of the quote on page 5 again distort our statement. In relative terms, the measurement of the costs of noise pollution is highly developed. Among economists the techniques employed to measure noise pollution are "generally acceptable" and have also been used in many other applications. The FAA has also adopted this approach to measuring noise abatement benefits while the BLS, DOT, and HUD, among others, have recently used hedonic price equations to measure the cost-effectiveness of public policy. We did not cite all of the literature on the subject only the best and most recent of which we were aware. Furthermore, PhD dissertations are in the open literature, are summarized in various scientific periodicals, and are available on request from University Microfilms, Ann Arbor, Michigan. Indeed PhD dissertations, especially from the top universities, are frequently more up to date and of higher quality than the average journal article.

One advantage of the technique (the hedonic price equation approach) is that it separately prices out the various characteristics of a plot of property such as environmental noise level, proximity to airports, proximity to the central business district, quality of the schools, property taxes, etc. In other words, these multiple regression models attempt to hold other factors constant allowing the investigator to

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focus in on the policy relevant variable. Outside of controlled experiments, this technique is the only one available that can perform such a function.

5. The Fallacy of "Distributional Inequities."

We strongly disagree with your statement that:

> "While the inequitable distribution may in fact occur, that is completely irrelevant to the question of providing an environment free from noise that jeopardizes health and welfare."

Providing an environment free from noise is a laudatory goal but in accomplishing that goal as in implementing any public policy action, the distributional effects should be carefully considered. In this case it is clear that property owners around airports both new and old stand to benefit while air travelers stand to pay. Equity considerations alone should not dictate public policy but should be combined with efficiency and other evaluative criteria.

6. Where is the Inflationary Impact Analysis?

We were quite surprised to read that question because that was the question that our filing asked of the Environmental Protection Agency. According to Executive Order 11821 dated November 27, 1974, the Agency proposing the regulations is supposed to accompany the regulations with an Inflationary Impact Statement. A mandated expenditure of over $800 million is inflationary if it produces benefits in smaller amounts than the costs. In our filing we asked if EPA disagreed with our conclusions, that they provide us with analyses that would clearly demonstrate that the benefits of the proposed regulations justified their costs.

It is for the above reasons that we reaffirm our original recommendations.

Sincerely,

George Eads
Assistant Director
Government Operations & Research

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

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FOR RELEASE
2:00 P.M., E.D.T.
Monday, May 12, 1975
CONTACT: Priscilla R. Crane (202) 634-5248

In a Memorandum of Agreement signed today, the U.S. Treasury Department's Office of Revenue Sharing and the Office for Civil Rights of the Department of Health, Education and Welfare established procedures for cooperative civil rights compliance efforts. The agreement was signed for the Treasury Department by Graham W. Watt, Director of the Office of Revenue Sharing. Mr. Peter Holmes, Director of the Office for Civil Rights and Special Assistant to the Secretary represented the Department of Health, Education, and Welfare.

The agreement states that its purpose is "... to establish certain procedures which will help to avoid duplication of investigative activity, provide for the timely exchange of information, and encourage joint action to secure voluntary compliance where appropriate."

Where the Office for Civil Rights of the Department of Health, Education and Welfare determines that a recipient of Federal financial assistance is not in compliance with non-discrimination requirements of law, it will notify the Office of Revenue Sharing in the event the recipient may also

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be benefitting from entitlement funds. The Office of Revenue Sharing, on its part, will notify the Office for Civil Rights of any failure to comply with the civil rights provisions of the State and Local Fiscal Assistance Act of 1972 (revenue sharing law).

The parties to the agreement will keep each other informed of investigative activities of mutual concern and of legal proceedings instituted upon a determination of noncompliance. Where appropriate and consistent with statutory and regulatory authority, each party will join in any proceeding initiated by the other.

The two agencies agreed to initiate further discussions to determine whether investigative responsibilities and related administrative activities could be shared.

Title I of the State and Local Fiscal Assistance Act of 1972, which established the General Revenue Sharing program, provides that "No person in the United States shall on the grounds of race, color, national origin or sex be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity funded in whole or in part with ... (general revenue sharing funds)."

To assist in monitoring compliance with the civil rights and other provisions of revenue sharing law, the Office of Revenue Sharing has developed an innovative system which enlists the assistance of other Federal and State agencies whose responsibilities relate to revenue sharing compliance activities.

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It is the policy of the Office of Revenue Sharing to draw on resources and expertise already in place, rather than to duplicate what already exists. Cooperative working agreements have been concluded with the U. S. Equal Employment Opportunity Commission, State audit agencies in nearly all States, and with the Maryland Commission on Human Relations. The agreement with Maryland's civil rights agency, concluded April 28, 1975, is the first of a series of comparable arrangements to be made with State civil rights agencies throughout the country.

Revenue sharing law authorizes the distribution of $30.2 billion to nearly 39,000 states, counties, cities, towns, townships Indian tribes and Alaskan native villages over a five year period that ends with December 1976.

Some $18.9 billion has been distributed to date. The next quarterly payment of shared revenues will be made in July 1975.

On April 25, 1975, President Ford proposed that General Revenue Sharing be continued past its presently-authorized deadline, through September 1982.

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ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE US-EUROPEAN SEMINAR
WASHINGTON, D.C., MAY 13, 1975

MR. FOWLER, MR. BRADLEY, DEAN OSGOOD, AND DISTINGUISHED DELEGATES TO THE SECOND ANNUAL U.S.-EUROPEAN SEMINAR:

I WELCOME THIS OPPORTUNITY TO TALK WITH YOU TODAY AND ESPECIALLY TO SEE SO MANY OLD FRIENDS.

YOUR MEETINGS THIS YEAR COME AT A TIME WHEN THE INTERNATIONAL COMMUNITY IS FACING ITS MOST SERIOUS CHALLENGES IN MORE THAN A DECADE. MAJOR ECONOMIC AND POLITICAL EVENTS HAVE CROWDED SO RAPIDLY ONTO THE INTERNATIONAL STAGE THAT THERE IS A SENSE OF CONFUSION AND UNCERTAINTY ABOUT THE FUTURE. OUR FRIENDS AND, OF COURSE, OUR ADVERSARIES ARE QUESTIONING WHETHER THE UNITED STATES REMAINS STEADFAST IN PURPOSE AND WHETHER WE ARE WILLING TO STAND BY OUR COMMITMENTS TO A STABLE WORLD ORDER.

IN THESE CIRCUMSTANCES, IT IS ESSENTIAL THAT WE THINK CLEARLY AND ACT DECISIVELY IN OUR RELATIONS ABROAD. WE MUST RECOGNIZE THAT OUR FOREIGN ECONOMIC POLICY MUST ADDRESS NOT ONE BUT A SERIES OF PROBLEMS. THOSE PROBLEMS ARE BOTH COMPLEX AND INTERRELATED, SO THAT PROGRESS IN ONE FIELD MAY HINGE UPON PROGRESS IN ANOTHER. SIMPLY STATED, THE CENTRAL CHALLENGES OF OUR INTERNATIONAL ECONOMIC POLICY ARE THREE-FOLD:

-- FIRST, TO RESTORE ECONOMIC GROWTH AND PRICE STABILITY WITHIN THE INTERNATIONAL COMMUNITY;

-- SECOND, TO ADAPT TO THE ENERGY SHOCK IN WAYS THAT WILL SUPPORT A PATTERN OF ORDERLY GROWTH; AND,

-- THIRD, TO ADJUST OUR TRADE AND FINANCIAL POLICIES SO THAT THEY WILL STRENGTHEN THE ABILITY OF THE INTERNATIONAL ECONOMIC SYSTEM TO ACCOMMODATE LARGE FINANCIAL FLOWS AND WILL ENCOURAGE THE PRODUCTION OF FOOD AND RAW MATERIALS ON TERMS ACCEPTABLE TO BOTH PRODUCING AND CONSUMING NATIONS.

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WE KNOW FROM EXPERIENCE THAT WE CANNOT SINGLE-HANDEDLY SHAPE THE COURSE OF WORLD EVENTS, JUST AS NO OTHER NATION CAN, BUT OUR ACTIVE PARTICIPATION IN PROMOTING GREATER INTERNATIONAL COOPERATION AND HARMONY WILL BE INDISPENSABLE TO FINDING SOLUTIONS.

THE FULL FORCES OF OUR GOVERNMENT ARE BEING MOBILIZED IN THIS EFFORT. PRESIDENT FORD, THROUGH A SERIES OF MEETINGS WITH FOREIGN LEADERS BOTH HERE AND ABROAD, IS PLAYING A VITAL LEADERSHIP ROLE IN SEEKING POLITICAL AND ECONOMIC PROGRESS. I HAVE RECENTLY RETURNED FROM AN EXTENDED TRIP AROUND THE WORLD WHICH ENABLED ME TO SPEAK WITH A NUMBER OF FINANCE LEADERS AND HEADS OF STATE, INCLUDING GENERAL SECRETARY BREZHNEV, ON ISSUES AFFECTING THE INTERNATIONAL ECONOMY. IN THE NEXT FOUR WEEKS, I PLAN TWO ADDITIONAL

TRIPS TO EUROPE AND WILL MEET WITH THE GOVERNORS OF THE INTER-AMERICAN DEVELOPMENT BANK IN SANTO DOMINGO. SECRETARY KISSINGER, OF COURSE, IS ALSO PLAYING AN IMPORTANT ROLE IN OUR FOREIGN ECONOMIC POLICY, AND, IN FACT, WILL BE SETTING FORTH SEVERAL INITIATIVES WITH REGARD TO COMMODITIES IN A SPEECH IN KANSAS CITY TONIGHT.

ACHIEVING STABLE, DURABLE GROWTH

THE SINGLE MOST IMPORTANT CONTRIBUTION THAT THE UNITED STATES CAN MAKE TO INTERNATIONAL ECONOMIC PROGRESS IS TO ACHIEVE STABLE, DURABLE GROWTH HERE AT HOME. YOUR INVITATION THAT MY TALK HERE TODAY DWELL ON PROSPECTS FOR THE U.S. ECONOMY REFLECTS THAT VIEWPOINT. WHILE THE UNITED STATES ECONOMY NO LONGER REPRESENTS THE SAME FORCE IN THE WORLD ECONOMY THAT IT ONCE DID, IT STILL RETAINS A STRONG INFLUENCE. OUR GROSS NATIONAL PRODUCT AMOUNTS TO OVER ONE QUARTER OF THE WORLD TOTAL, AND WE ARE THE WORLD'S LARGEST IMPORT MARKET, TAKING SOME 14 PERCENT OF WORLD EXPORTS. IF

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WE ARE SUCCESSFUL IN RESTORING ECONOMIC GROWTH WITHOUT REFUELING INFLATION, WE WILL HAVE SERVED NOT ONLY OURSELVES BUT THE REST OF THE WORLD AS WELL.

FORTUNATELY, THERE ARE NOW SOLID GROUNDS FOR BELIEVING THAT THE WORST OF THE RECESSION IS ALREADY BEHIND US IN THE UNITED STATES. LET ME DWELL ON THIS FOR A FEW MOMENTS.

IN MY VIEW, TWO FACTORS HAVE BEEN ESPECIALLY IMPORTANT IN BRINGING US CLOSE TO THE END OF OUR RECESSION. ONE HAS BEEN THE RAPID LIQUIDATION OF INVENTORIES, WHICH REACHED A RECORD LEVEL IN THE FIRST QUARTER OF THIS YEAR. THE IMPORTANCE OF THIS LIQUIDATION PROCESS IS THAT MANY INDUSTRIES SALES ARE MOVING AHEAD MORE RAPIDLY THAN PRODUCTION. AS THAT CONTINUES, WE CAN EXPECT AN INCREASE IN PRODUCTION IN ORDER TO MEET DEMAND. AND AS THAT HAPPENS, OF COURSE, WE WILL BE ENTERING UPON THE RECOVERY.

THE INVENTORY LIQUIDATION REFLECTS ANOTHER FACTOR OF EQUAL IMPORTANCE: THE TURNAROUND IN OUR RETAIL SALES. EVEN APART FROM THE INFLUENCE OF PRICE REBATES ON AUTO SALES, RETAIL SALES ROSE BY A TOTAL OF 3 PERCENT IN THE FIRST QUARTER OF THIS YEAR AND APPEAR TO HAVE INCREASED A BIT FURTHER IN APRIL.

THERE WAS ALSO ENCOURAGING NEWS IN THE MOST RECENT EMPLOYMENT FIGURES RELEASED BY THE GOVERNMENT. WHILE THE RATE OF UNEMPLOYMENT ROSE TO 8.9 PERCENT, THE HIGHEST LEVEL OF THE POST-WAR PERIOD, THE INCREASE WAS A SMALL ONE AND -- MORE IMPORTANTLY -- APRIL ALSO BROUGHT THE FIRST INCREASE IN OVERALL EMPLOYMENT IN HALF A YEAR. THERE HAS ALSO BEEN A SLIGHT REDUCTION IN THE RATE OF JOB LAYOFFS, WHICH HAS A CRUCIAL IMPACT NOT ONLY ON UNEMPLOYMENT BUT ALSO UPON PUBLIC CONFIDENCE.

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THERE ARE SEVERAL OTHER SIGNS THAT ARE ALSO POINTING IN THE DIRECTION OF RECOVERY:

-- THE REDUCTION IN THE RATE OF INFLATION WILL BRING AN INCREASE IN REAL EARNINGS, WHICH WILL HELP TO INCREASE CONSUMER PURCHASING.

-- AS MONETARY POLICY HAS BECOME MORE EXPANSIVE AND INFLATION HAS SUBSIDED, SHORT-TERM INTEREST RATES HAVE FALLEN AND FUNDS HAVE BEGUN FLOWING BACK INTO THE THRIFT INSTITUTIONS. THIS SETS THE NECESSARY PRECONDITION FOR AN UPTURN IN THE HARD-HIT HOUSING INDUSTRY.

-- SURVEYS ALREADY SHOW THAT CONSUMER CONFIDENCE IS IMPROVING.

-- AND THERE HAS BEEN A DEFINITE AIR OF OPTIMISM IN THE STOCK MARKET, WHERE THE DOW JONES HAS RISEN BY SOME 35 PERCENT SINCE ITS LOW POINT IN 1974.

In addition to these developments within the private sector, the Government has also taken several positive steps to assist the forces of recovery. As I mentioned, the Federal Reserve has already eased monetary conditions substantially and Board Chairman Arthur Burns has indicated that the Federal Reserve will continue to support the recovery while avoiding excessive stimulation. At the same time, the Congress has passed and the President has signed the biggest tax cut in our history. Combined with a large Federal deficit, the tax cut will give a strong boost to the economy.

Such cheerful economic news in the United States is as welcome as a spring rain after a long drought. In discussing it, however, I do not mean to say that prosper is at hand. Certainly economic developments in the United States are not going to be a steady flood of

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GOOD NEWS. ECONOMIC POLICY FACES ENORMOUSLY DIFFICULT CHALLENGES IN THE MONTHS AND YEARS AHEAD.

OUR UNEMPLOYMENT RATE SHOULD PEAK SOON, BUT EVEN IF THE RECOVERY PROVES TO BE EXCEPTIONALLY VIGOROUS, UNEMPLOYMENT WILL REMAIN UNACCEPTABLY HIGH FOR MONTHS TO COME. FURTHERMORE, INFLATION IS NOT GOING TO DISAPPEAR QUICKLY OR EASILY. WE WILL CONTINUE TO MAKE PROGRESS AGAINST INFLATION, BUT WE MUST REMAIN VIGILENT BECAUSE IT REMAINS OUR MOST SERIOUS LONG-TERM ECONOMIC CHALLENGE. SIMILARLY, OUR PROBLEM OF EXCESSIVE DEPENDENCE ON INSECURE AND OVERPRICED SOURCES OF FOREIGN OIL WILL REMAIN SERIOUS FOR SEVERAL YEARS EVEN IF WE TAKE IMMEDIATE CORRECTIVE ACTION AT HOME -- AND SO FAR, THAT ACTION HAS BEEN PAINFULLY SLOW IN COMING. STILL ANOTHER LONG-TERM CHALLENGE OF IMMENSE IMPORTANCE IN THE UNITED STATES IS WHETHER WE WILL BE ABLE TO TRIPLE OUR LEVELS OF CAPITAL

INVESTMENT AS WE MUST DO IN ORDER TO ACHIEVE OUR MOST FUNDAMENTAL GOALS OF ECONOMIC GROWTH.

THE CHALLENGES WE FACE ARE THUS FORMIDABLE. OUR BASIC OBJECTIVE FOR THE NEXT SEVERAL MONTHS IS TO ENSURE THAT OUR RECOVERY IS STRONG ENOUGH TO REDUCE UNEMPLOYMENT BUT DOES NOT PROCEED SO RAPIDLY THAT WE SACRIFICE THE PROSPECTS FOR SUSTAINED, DURABLE PROGRESS.

ABOVE ALL, WE MUST RESIST THE TEMPTATIONS OF HIGHLY STIMULATIVE FISCAL AND MONETARY POLICIES. THE TAX REDUCTION THAT WAS ENACTED, ALONG WITH THE FEDERAL DEFICITS, WILL PROVIDE A STRONG BOOST TO THE ECONOMY. AT THE SAME TIME, HOWEVER, A NUMBER OF EXPENSIVE FEDERAL SPENDING PROGRAMS ARE NOW BEING SERIOUSLY CONSIDERED IN OUR CONGRESS ON THE THEORY THAT THEY ARE NEEDED TO SPEED UP THE RECOVERY. MOST OFTEN, THE EFFECTS OF NEW SPENDING PROGRAMS ARE NOT FELT FOR A YEAR TO 18 MONTHS. PROGRAMS ENACTED IN

4/9/75

COMING MONTHS WOULD NOT PUMP STIMULUS INTO THE ECONOMY UNTIL WE ARE ALREADY MOVING TOWARD FULL CAPACITY, AND THEY WOULD THUS CONTRIBUTE SIGNIFICANTLY TO NEW INFLATIONARY PRESSURES.

A SECOND DANGER OF OVERSIZED GOVERNMENT DEFICITS WOULD ARISE IN OUR PRIVATE CAPITAL MARKETS. FOR SEVERAL MONTHS, I HAVE BEEN EMPHASIZING THAT DEFICITS IN THE RANGE OF $50 TO $60 BILLION -- THE RANGE THAT THE ADMINISTRATION HAS SET AS A CEILING -- WILL CREATE SOME STRAINS IN OUR FINANCIAL MARKETS, BUT THEY SHOULD BE MANAGEABLE. HOWEVER, DEFICITS IN THE MAGNITUDE OF $80 TO $100 BILLION WOULD BE CLEARLY EXCESSIVE AND DANGEROUS.

THE DANGER WOULD ARISE NOT THIS YEAR DURING A PERIOD OF ECONOMIC SLACK BUT NEXT YEAR WHEN THE RECOVERY TAKES HOLD AND WE HAVE A RISING TIDE OF PRIVATE AND PUBLIC DEMANDS FOR FUNDS. IT IS WELL TO REMEMBER THAT WHILE OUR RECESSION

IS 75 PERCENT OVER, THE BORROWING TO FINANCE OUR DEFICITS IS ONLY 25 PERCENT COMPLETED. BASED ON THE PRESIDENT'S BUDGET AND CURRENT ENACTMENTS, WE EXPECT THAT THE TREASURY WILL NEED TO BORROW SOME $75 BILLION IN FUNDS THIS CALENDAR YEAR -- A BILLION AND A HALF DOLLARS A WEEK. IN 1976, IF THE OUTLAY TOTALS PROJECTED ON OUR CONGRESS ARE AN ACCURATE PROJECTION AND IF THERE IS AN EXTENSION OF MAJOR TAX PROVISIONS, OUR BORROWING NEEDS COULD REACH $84 BILLION. I OFTEN HEAR THAT WE SHOULD IGNORE THE CONSEQUENCE OF INFLATIONARY POLICIES UNTIL NEXT YEAR OR THEREAFTER. I CANNOT IMAGINE A MORE SHORT-SIGHTED APPROACH: BY NEXT YEAR, IT MIGHT BE TOO LATE. THE DECISIONS THAT WILL DETERMINE THE SHAPE OF OUR ECONOMY TOMORROW ARE BEING MADE IN WASHINGTON TODAY, AND WE SHOULD NEVER FORGET THAT.

THE IMMEDIATE IMPACT OF HUGE FEDERAL DEMAND DURING A PERIOD OF RECOVERY WOULD DEPEND, OF COURSE, UPON THE MONETARY POLICY OF THE FEDERAL RESERVE. INDEED, MONETARY

POLICY IS GOING TO BE A CRITICAL ELEMENT IN SHAPING OUR ECONOMIC PROSPECTS BOTH NOW AND IN THE FUTURE. IF OVERSIZED FEDERAL DEFICITS CREATE STRONG COMPETITION FOR FUNDS AND THE FEDERAL RESERVE PURSUES A MODERATE POLICY, THERE IS A POSSIBILITY THAT WE WOULD DRIVE UP INTEREST RATES AND ABORT THE PROCESS OF RECOVERY. THE OTHER ALTERNATIVE IS THAT THE FEDERAL RESERVE MIGHT SEEK TO ACCOMODATE THE ENORMOUS BORROWING REQUIREMENTS OF THE FEDERAL GOVERNMENT, AS WELL AS THOSE OF THE PRIVATE SECTOR, BY CREATING A MORE RAPID GROWTH IN MONEY AND CREDIT. THAT MIGHT POSTPONE THE ADVERSE IMPACT ON THE RECOVERY FOR PERHAPS A YEAR OR TWO, BUT THE CONSEQUENCES OF THAT ACTION WOULD SOON CATCH UP WITH US IN THE FORM OF A REACCELERATED INFLATION FOLLOWED BY A NEW RECESSION AND HIGHER UNEMPLOYMENT. BOTH ALTERNATIVES, THEN, WOULD HAVE HIGHLY UNDESIRABLE RESULTS, AND IT SEEMS CLEAR THAT WE WOULD BE FAR WISER TO AVOID POLICY DECISIONS WHICH WOULD FORCE US TO MAKE SUCH A HOBSON'S CHOICE.

LET ME EMPHASIZE THAT I AM NOT PREDICTING THAT THESE EVENTS WILL TRANSPIRE; RATHER, I AM WARNING OF THE POSSIBLE RESULTS OF MISGUIDED FISCAL AND MONETARY POLICIES. AND LET ME ALSO ADD THAT I HAVE BEEN HEARTENED BY THE RECENT DEBATES ON THIS MATTER WITHIN THE CONGRESS AND BY THE EFFORTS TO IMPOSE A CEILING ON THE SIZE OF OUR DEFICITS. THE STEPS TAKEN BY THE CONGRESS IN RECENT DAYS REFLECT A GROWING AWARENESS IN OUR COUNTRY OF THE NEED FOR FISCAL AND MONETARY RESPONSIBILITY, AND I AM INCREASINGLY HOPEFUL THAT THIS AWARENESS WILL BE TRANSLATED INTO SOUND POLICIES FOR THE FUTURE.

THE PATTERN OF RECENT PROGRESS IN THE UNITED STATES IN COMBATING THE FORCES OF RECESSION AND INFLATION HAVE BEEN MIRRORED BY PROGRESS IN SEVERAL OTHER INDUSTRIALIZED COUNTRIES. ONE OF THE MEETINGS THAT I RECENTLY ATTENDED WAS IN

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PARIS WHERE I CONFERRED WITH THE FINANCE MINISTERS FROM THE OECD NATIONS. IT WAS THE NEAR UNANIMOUS VIEW AMONG THOSE MINISTERS THAT THE WESTERN WORLD WAS NEARING THE END OF THE CURRENT RECESSIONARY CYCLE. I MUST ALSO TELL YOU, HOWEVER, THAT THERE WAS ALSO SOME CONCERN THERE ABOUT THE POSSIBLE RESURGENCE OF INFLATION. THUS, ALL OF US FACE THE PROBLEM OF RESTORING ECONOMIC GROWTH WITHOUT SETTING OFF A NEW ROUND OF INFLATION.

ADAPTING TO THE ENERGY SHOCK

AS I NOTED EARLIER, THE SECOND MAJOR CHALLENGE TO FOREIGN ECONOMIC POLICY IS TO ADJUST TO RADICALLY DIFFERENT CONDITIONS IN THE FIELD OF ENERGY.

ALTHOUGH THERE IS WIDESPREAD ACKNOWLEDGEMENT OF THE GENERAL NEED TO CONSERVE ENERGY AND THE PARTICULAR NEED TO REDUCE PETROLEUM IMPORTS, IT IS DIFFICULT TO CHANGE

COMFORTABLE HABITS DEVELOPED DURING DECADES OF CHEAP OIL. THE EASIEST WAY IS TO ACCEDE TO A MANANA PHILOSOPHY, BUT STRONG ENERGY MEASURES HAVE NOW BECOME IMPERATIVE. NEITHER WE NOR OTHER MAJOR CONSUMER NATIONS CAN LONG AFFORD THE OUTFLOW OF FUNDS AND THE THREAT TO OUR NATIONAL SECURITY THAT IS INHERENT IN AN OVER DEPENDENCE UPON FOREIGN SOURCES OF OIL.

MOREOVER, THE DEMONSTRABLE EFFECTS OF DEMAND AND SUPPLY UPON THE OPEC CARTEL SHOULD GIVE US HEART TO REDOUBLE OUR EFFORTS. THIS CARTEL, LIKE ALL OTHERS IN THE PAST, MUST RESPOND TO THE PRESSURES OF THE MARKETPLACE. WE ARE ALREADY SEEING THIS PROCESS AT WORK: BECAUSE OF REDUCED WORLDWIDE CONSUMPTION, OPEC HAS NOW SHUT IN A THIRD OF ITS PRODUCTIVE CAPACITY -- OVER 12 MILLION BARRELS A DAY -- IN ORDER TO HOLD THE LINE ON PRICES. WITHIN A FEW MONTHS, OPEC'S SHUT-IN CAPACITY MAY RISE TO 15 - 16 MILLION BARRELS OF OIL A DAY. FURTHERMORE,

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DURING THE LAST THREE YEARS, AS THE OPEC MEMBERS RECOGNIZE, SIGNIFICANT DISCOVERIES OF OIL HAVE BEEN MADE IN SOME 25 - 30 AREAS OF THE WORLD OUTSIDE OPEC -- UNCOVERING RESERVES ESTIMATED AT ROUGHLY 35 BILLION BARRELS. THESE FIELDS COULD PRODUCE SOME 8 MILLION ADDITIONAL BARRELS A DAY BY THE EARLY 1980S, AND THIS DOES NOT INCLUDE NEW PRODUCTION COMING FROM THE UNITED STATES, THE SOVIET UNION, AND THE PEOPLE'S REPUBLIC OF CHINA.

AS THESE PRESSURES HAVE DEVELOPED, SOME OF THE MEMBERS OF THE CARTEL HAVE BEGUN SHAVING PRICES AND THE FIRST CRACKS HAVE BEGUN TO APPEAR IN THE OPEC WALL.

AN IMPORTANT FIRST STEP IN REDUCING DEPENDENCE ON OPEC WAS TAKEN LAST FALL WHEN THE MAJOR CONSUMER NATIONS

AGREED ON A PROGRAM TO LIMIT THEIR VULNERABILITY DURING EMERGENCIES CREATED BY SUPPLY INTERRUPTIONS. THAT AGREEMENT COMMITS MEMBER NATIONS TO BUILD A COMMON LEVEL OF EMERGENCY SUPPLIES THAT WOULD ALLOW THEM TO SURVIVE FOR DESIGNATED PERIODS, TO DEVLOP STAND-BY EMERGENCY CONSERVATION PROGRAMS THAT COULD BE IMPOSED IN THE EVENT OF ANOTHER EMBARGO, AND -- IN THE EVENT OF AN EMERGENCY -- TO ALLOCATE AVAILABLE OIL IN A WAY THAT SPREADS SHORTFALLS AMONG ALL PARTICIPATING NATIONS.

IN MOST CONSUMER NATIONS, DEMAND FOR OIL HAS EITHER LEVELED OFF OR FALLED DUE TO HIGHER PRICES, CONSERVATION, AND THE EFFECTS OF RECESSION.

IT IS PERHAPS IN THE UNITED STATES THAT THE LARGEST PROBLEMS REMAIN. THERE SEEMS TO BE A STUBBORN DETERMINATION TO HOLD DOWN DOMESTIC OIL PRICES AS IF IT WOULD BE A NATIONAL TRAUMA TO PAY MORE THAN 60¢ PER GALLON FOR GAS, EVEN THOUGH EUROPEANS ARE ALREADY PAYING TWO OR THREE TIMES THAT MUCH.

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THIS FOOT-DRAGGING HELPS TO EXPLAIN WHY GERMANY, RELYING ON THE PRICE-MECHANISM, CUT BACK ITS OIL CONSUMPTION 10 PERCENT LAST YEAR, AND FRANCE, BY LIMITING ITS IMPORTS, CUT CONSUMPTION BY 14 PERCENT, WHILE THE UNITED STATES REDUCED ITS CONSUMPTION BY ONLY 3 PERCENT. WHILE DISAGREEMENTS CONTINUE TO EXIST WITH THE LEGISLATIVE BRANCH, WE ARE WORKING CLOSELY WITH THE CONGRESS AND WE REMAIN HOPEFUL THAT A NATIONAL ENERGY POLICY CAN BE HAMMERED OUT. IN THE FINAL ANALYSIS, HOWEVER, IF THE CONGRESS DOES NOT ACT SOON, THE PRESIDENT WILL HAVE NO CHOICE BUT TO ACT DECISIVELY.

ADAPTING TRADE AND PAYMENT POLICIES

THE THIRD CHALLENGE TO OUR FOREIGN ECONOMIC POLICY -- AND ONE THAT I WILL DISCUSS ONLY BRIEFLY BECAUSE IT WILL BE ADDRESSED BY SO MANY OTHER SPEAKERS AT THIS SEMINAR --IS TO BOLSTER OUR INTERNATIONAL TRADE AND PAYMENTS SYSTEM SO THAT IT CAN ACCOMODATE THE MASSIVE FLOWS OF FUNDS IN INTERNATIONAL FINANCE AND ENCOURAGE THE PRODUCTION OF FOOD AND OTHER RAW MATERIALS ON TERMS THAT ARE ACCEPTABLE TO PRODUCERS AND

THE SHIFT IN INTERNATIONAL PAYMENTS PATTERNS THAT RESULTED LAST YEAR FROM THE SHARP INCREASE IN OIL PRICES WAS THE LARGEST AND MOST ABRUPT THAT THE WORLD HAS EVER EXPERIENCED. ALTHOUGH ORIGINAL PREDICTIONS ABOUT THE EVENTUAL ACCUMULATIONS OF FUNDS BY THE OPEC NATIONS HAVE BEEN CONSIDERABLY REDUCED, THESE SHIFTS CONTINUE TO POSE MAJOR PROBLEMS WITHIN THE INTERNATIONAL COMMUNITY.

THE MOST FUNDAMENTAL CHALLENGE IS TO ENSURE THAT LARGE TRADING DEFICITS IN THE INDUSTRIAL NATIONS DO NOT LEAD THE WORLD INTO A SPIRAL OF RESTRICTIVE TRADE MEASURES. SO FAR, WE HAVE ACHIEVED A LARGE MEASURE OF SUCCESS IN THIS REGARD. LAST YEAR, FOR INSTANCE, THE OECD NATIONS PLEDGED TO ABSTAIN FROM RESTRICTIVE TRADE ACTIONS AND ARTIFICAL AIDS TO EXPORTS.

LOOKING BEYOND THIS ISSUE, IT IS IMPORTANT TO MOVE NOW TOWARD FURTHER LIBERALIZATION OF TRADE THROUGH MULTILATERAL TRADE NEGOTIATIONS. FOR BOTH DEVELOPED AND DEVELOPING COUNTRIES, THE RAPID GROWTH OF TRADE EMANATING FROM PROGRESSIVE LIBERALIZATIONS OF TRADE SINCE WORLD WAR II HAS BEEN A POWERFUL ENGINE OF ECONOMIC GROWTH. TRADE NEGOTIATIONS HAVE NEVER BEEN MORE TIMELY, AND THE UNITED STATES WILL PLAY AN ACTIVE ROLE IN SEEKING A LIBERAL, EXPANDED WORLD ORDER FOR TRADE AND INVESTMENT.

ANOTHER TASK FACING US TODAY IS TO ENSURE THAT OUR FINANCING MECHANISMS ARE ADEQUATE TO COPE WITH THE ALTERED PATTERNS OF INTERNATIONAL CAPITAL FLOWS. SO FAR, WE HAVE RELIED PRIMARILY UPON PRIVATE FINANCING CHANNELS, AND THEY HAVE PROVED TO BE BOTH FLEXIBLE AND EFFECTIVE. THE PRIVATE MARKETS AND NEWLY CREATED FINANCING MECHANISM HAVE SERVED US WELL DURING THE PAST YEAR.

NEVERTHELESS, WE ALSO BELIEVE THAT THE TIME HAS COME TO SUPPLEMENT EXISTING ARRANGEMENTS WITH AN INSURANCE MECHANISM THAT WILL PROVIDE THE SYSTEM WITH THE ADDITIONAL CONFIDENCE THAT IT NEEDS. TO THIS END, WHILE I WAS IN PARIS, I AND THE OTHER OECD FINANCE MINISTERS SIGNED AN AGREEMENT SETTING UP A $25 BILLION SAFETY NET, TO BE AVAILABLE TO PARTICIPATING COUNTRIES WHICH COOPERATE IN ENERGY AND OTHER ECONOMIC POLICIES. THIS AGREEMENT WILL SOON BE SUBMITTED TO THE CONGRESS FOR APPROVAL. LIKE AN INSURANCE POLICY, WE HOPE THAT THIS NEW SUPPORT FUND WILL NEVER BE NEEDED, BUT PRUDENCE DEMANDS THAT WE HAVE IT AVAILABLE JUST IN CASE. THE REACTION OF THE CONGRESS TO THIS PROPOSAL WILL INEVITABLY BE REGARDED BY THE REST OF THE WORLD AS A MAJOR INDICATION OF OUR COMMITMENT TO SOLVING THE WORLD'S ECONOMIC PROBLEMS IN A COOPERATIVE MANNER.

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WE BELIEVE THAT THE ABILITY OF THE SYSTEM TO ADAPT TO THE MASSIVE CAPITAL FLOWS SO FAR HAS UNDOUBTEDLY BEEN ENHANCED BY THE WIDESPREAD ADOPTION OF FLOATING EXCHANGE RATES. BECAUSE COUNTRIES HAVE NOT SOUGHT TO MAINTAIN RIGIDLY FIXED RATES OF EXCHANGE FOR THEIR CURRENCIES, THE SYSTEM HAS BEEN MORE FLEXIBLE AND COULD AVOID THE HUGE AND DESTABILIZING RESERVE MOVEMENTS AND EXCHANGE MARKET CRISES OF EARLIER YEARS. MOREOVER, ON A TRADE WEIGHTED BASIS VIS-A-VIS MAJOR U.S. TRADING PARTNERS, THE DOLLAR HAS BEEN ONE OF THE MOST STABLE OF THE MAJOR CURRENCIES. OVER THE PAST TWO YEARS, IT FLUCTUATED WITHIN A RANGE OF 10 PERCENT AND NOW, HAVING RISEN OVER 2 PERCENT SINCE LAST FEBRUARY, STANDS AT APPROXIMATELY THE LEVEL OF TWO YEARS AGO, WHEN GENERALIZED FLOATING WAS INITIATED. AMONG THE MAJOR CURRENCIES, ONLY THE CANADIAN DOLLAR HAS SHOWN LESS FLUCTUATION.

I ALSO WANT TO EMPHASIZE HERE, AS I HAVE IN OTHER FORUMS, THAT WE WELCOME FOREIGN INVESTMENT IN THE UNITED STATES, INCLUDING INVESTMENT FROM OPEC NATIONS. SO LONG AS FOREIGN NATIONS DO NOT SEEK TO CONTROL INDUSTRIAL SECTORS THAT ARE VITAL TO OUR NATIONAL SECURITY -- AND FOR THAT PURPOSE WE HAVE MANY SAFEGUARDS BUILT INTO THE SYSTEM -- WE SUPPORT AND WILL CONTINUE TO SUPPORT AN OPEN DOOR ON INVESTMENTS. THE UNITED STATES, AFTER ALL, IS THE LARGEST FOREIGN INVESTOR IN THE WORLD WITH OVER $105 BILLION IN BOOK VALUE INVESTED ABROAD -- SEVERAL TIMES MORE THAN DIRECT INVESTMENTS HERE BY OTHER COUNTRIES.

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WITH REGARD TO THE FINAL ISSUE THAT I WANT TO ADDRESS TODAY -- U.S. COMMODITY POLICY -- MANY OF YOU MAY HAVE NOTICED THAT COMMODITY PRICES HAVE FALLEN SHARPLY DURING THE PAST YEAR AFTER RISING TO RECORD LEVELS IN EARLY 1974. DESPITE THE FACT THAT MOST COMMODITY PRICES ARE STILL WELL ABOVE THE PRE-1972 LEVELS, MANY OF THE PRIMARY PRODUCING COUNTRIES ARE CONCERNED ABOUT THE EFFECT OF FALLING PRICES ON THEIR BALANCE OF PAYMENTS AND THE SERIOUS THREAT SUCH PRICES POSE TO THEIR LONG-TERM DEVELOPMENT PLANS. THE DECLINING PRICES OF THE PRIMARY PRODUCTS WHICH THEY EXPORT HAVE NOT BEEN MATCHED BY DECREASES IN PRICES OF THEIR IMPORTS SUCH AS OIL AND MANUFACTURED PRODUCTS.

IN SEVERAL RECENT INTERNATIONAL FORUMS, THE DEVELOPING COUNTRIES HAVE SOUGHT A REFORM AND RESTRUCTURING OF THE CURRENT ECONOMIC SYSTEM WHICH WOULD PERMIT THEM TO INCREASE THEIR SHARE IN THE WORLD WEALTH AND PREVENT DETERIORATION

IN THEIR TRADE BALANCES. THIS ISSUE REACHED A CLIMAX AT THE RECENT PARIS MEETING OF OIL PRODUCERS AND CONSUMERS WHERE THE OPEC NATIONS STEADFASTLY DEMANDED THAT OTHER COMMODITY PROBLEMS BESIDES OIL SHOULD BE ADDED TO THE AGENDA.

THE U.S. AND OTHER INDUSTRIALIZED NATIONS ARE SENSITIVE TO THESE CONCERNS, AND THEY ARE CURRENTLY STUDYING METHODS THAT COULD ADDRESS THEM PROPERLY. THE TREASURY DEPARTMENT IS CHAIRING AN INTER-AGENCY TASK FORCE, UNDER THE AUSPICES OF THE ECONOMIC POLICY BOARD AND THE NATIONAL SECURITY COUNCIL, TO STUDY THE PROBLEM AND TO FORMULATE RECOMMENDATIONS FOR U.S. COMMODITY POLICY. OUR GENERAL POLICY APPROACH IS THAT WE ARE WILLING TO CONTINUE DISCUSSING PROPOSALS FOR INDIVIDUAL COMMODITY ARRANGEMENTS ON A CASE-BY-CASE BASIS AND WE ARE ALSO WILLING TO CONSIDER OTHER ALTERNATIVES.

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CONCLUSION

LADIES AND GENTLEMEN, IN REVIEWING THE FULL SWEEP OF INTERNATIONAL ECONOMIC AFFAIRS, IT IS APPARENT THAT WE HAVE REACHED ANOTHER CRITICAL JUNCTURE IN OUR RELATIONS ABROAD. MANY OF THE ECONOMIC ARRANGEMENTS FORGED IN THE AFTERMATH OF WORLD WAR II HAVE SERVED US EXTREMELY WELL, BUT THEY ARE NO LONGER WHOLLY ADEQUATE TO MEET TODAY'S NEEDS. WE HAVE EMERGED INTO A NEW, MORE COMPLICATED WORLD, AND WE NOW FACE THE FUNDAMENTAL QUESTION OF WHETHER WE WILL GO FORWARD WITH NEWS FORMS OF INTERNATIONAL COOPERATION AND BUILD A MORE STABLE WORLD ORDER OR WHETHER WE WILL RETREAT INTO A NEW ISOLATIONISM.

BECAUSE INTERDEPENDENCE BETWEEN NATIONS HAS BEEN TRANSFORMED FROM THEORY INTO REALITY, I BELIVE THAT THE MUTUAL PROSPERITY NOW DEPENDS MORE HEAVILY THAN EVER BEFORE ON MUTUAL COOPERATION. AND IT IS EQUALLY CLEAR, I BELIEVE, THAT THE WORLD WILL MAKE SIGNIFICANT ECONOMIC PROGRESS ONLY IF AMERICA IS AN ACTIVE,

DYNAMIC PARTNER -- ECONOMICALLY STRONG AT HOME AND RESOLUTE ABROAD.

IN COMING MONTHS, THE PRESIDENT AND OTHER LEADING MEMBERS OF THE ADMINISTRATION WILL BE SPENDING A MAJOR PORTION OF OUR TIME IN PROMOTING GREATER INTERNATIONAL COOPERATION ON ECONOMIC ISSUES. WE RECOGNIZE THIS AS ANOTHER TIME OF TESTING FOR THE UNITED STATES. AMERICANS HAVE ALWAYS RISEN TO MEET NEW CHALLENGES IN THE PAST, AND WE ARE CONFIDENT OF OUR SUCCESS IN THE FUTURE, BUT TO ACHIEVE THAT SUCCESS WE MUST ONCE AGAIN COUNT UPON THE HELP AND SUPPORT OF LEADING CITIZENS IN THE PRIVATE SECTOR -- MEN AND WOMEN SUCH AS YOU WHO ARE DEVOTED TO AN OUTWARD-LOOKING, STRONG FOREIGN POLICY. I URGE YOU TODAY TO JOIN US IN THAT CAUSE.

THANK YOU.

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U.S.-ISRAEL JOINT COMMITTEE FOR INVESTMENT AND TRADE
WASHINGTON, D.C.
May 13, 1975

JOINT STATEMENT

The U.S.-Israel Joint Committee for Investment and Trade, established during the July 1974 visit to Israel of U.S. Secretary of the Treasury William E. Simon, met in Washington, D.C. on May 12-13, 1975. The meeting was chaired jointly by Secretary Simon and Minister of Finance Yehoshua Rabinowitz. Other senior officials of the two governments also participated. (A list of senior participants is attached.)

The meeting, which continued the dialogue established during Secretary Simon's visit to Israel in July 1974, underscored the warm and friendly relationship between the countries and helped broaden the ties between them.

During the meeting, the Israeli members of the Joint Committee briefed the U.S. Delegation on the current economic situation in Israel, Israel's development plans and its economic forecasts. The U.S. members reviewed current economic developments in the U.S. and explained recent policy proposals aimed at achieving greater stability within the U.S. economy. Mr. Avraham Agmon, Director General of the Ministry of Finance, and Assistant Secretary of the Treasury

Gerald L. Parsky briefed the Joint Committee on the work of the Subcommittees on Capital Investment, Trade, Raw Materials, and Research and Development, which had met in Washington in September 1974 and in Jerusalem in October 1974. Secretary Simon and Minister Rabinowitz expressed their satisfaction with the work of the four joint subcommittees, which served as a basis for the Committee's deliberations.

At the conclusion of the Committee's session the Minister of Finance and the Secretary of the Treasury, as co-chairmen, announced their agreement on a number of principles and programs aimed at expanding economic co-operation between the two countries particularly by increasing the opportunities for trade and investment and for cooperation in research and development.

The Committee agreed that measures designed to expand cooperation between Israel and the United States are consistent with both countries' deep interest in achieving a just and lasting peace in the Middle East. The Committee felt that its deliberations and conclusions should increase and broaden the interest of U.S. private business enterprises in participating in Israel's economic development and in seeking out new opportunities to expand the economic relationship between the U.S. and Israel.

I. <u>Economic Cooperation</u>

The Israeli members described the favorable environment for foreign investment in Israel and reaffirmed their interest in U.S. investments in Israel and in acquiring U.S. technology through U.S. business participation in industrial projects in Israel. The U.S. recognized the importance of U.S. and other foreign investment to the economic growth of Israel and pointed to a number of additional factors that could further improve the investment climate. The U.S. and Israel recognized that investment in Israel serves the common interest of the U.S. and Israel.

The Joint Business Council which the parties agreed to seek to establish will be broadly based and will be charged with enhancing the participation of U.S. business in Israel's industrial development. The Council would identify projects which appear feasible for U.S. private sector investments and joint ventures, arrange business symposia and visits in both countries, and participate with other interested parties in disseminating information on business opportunities in both countries.

The members of the Committee reaffirmed the policies of their governments to oppose restrictive trade practices or boycotts against countries friendly to either. The U.S. side noted

President Ford's February 26 statement that religious or ethnic discrimination is totally contrary to the American tradition and has no place in the free commerce of the United States.

II. Treaty to Avoid Double Taxation

Minister Rabinowitz and Secretary Simon initialed today a treaty on the avoidance of double taxation. The treaty recognizes Israeli compulsory loans as creditable taxes for U.S. income tax purposes and incorporates a new rule on the treatment of Israel Government grants to U.S. investors. Both parties agreed to present the treaty for ratification, according to each country's constitutional procedures, as soon as possible. The Committee members expressed their confidence that the tax convention initialed by the Ministers would contribute toward reducing obstacles to trade and investment.

III. Encouragement of Investment

The Joint Committee noted with satisfaction efforts by the U.S. Overseas Private Investment Corporation (OPIC) to promote investment ties between the two countries. The Committee noted that OPIC is prepared:

(a) to guarantee loans to qualified investment projects in Israel involving U.S. companies, or their subsidiaries;

(b) to participate, where appropriate, in financing industrial projects in Israel sponsored by U.S. investors through purchase of subordinated convertible debentures issued by such enterprises in Israel; and

(c) to include in its publications information about investment opportunities in Israel, incentives, economic data, and other information of interest to potential investors.

The U.S. also indicated its willingness to use its other resources, particularly the facilities of the Department of Commerce, to facilitate investments in Israel, and among other things to publicize within the U.S. business community information on investment opportunities in Israel, specific incentives offered by the Government of Israel, and other forms of assistance to investors available from both U.S. Government agencies and Israeli authorities. The Department of Commerce will also organize seminars in the United States and sponsor missions to Israel of prominent U.S. industrialists and businessmen. The promotion of trade missions will be a major target.

IV. <u>Development of Trade</u>

The Joint Committee noted the growth of trade between the two countires and emphasized the importance of a continued increase in mutual trade opportunities. The

Committee agreed on the desirability of further promoting trade between the two countries by expanding the dissemination of information on bilateral trade opportunities through the programs of the U.S. Department of Commerce and the Israel Ministry of Commerce and Industry, and through national and binational organizations.

The Israeli members of the Committee noted with appreciation the assistance accorded to Israel through the use of the facilities of the Export-Import Bank. The Committee expressed its satisfaction with the harmonious relationship Eximbank has enjoyed with Israel since the founding of the State, and Israel's excellent record in meeting its obligations. The U.S. members reaffirmed Eximbank's current policy of providing financing for U.S. exports to Israel within the limits permitted by the Bank's resources.

The U.S. members provided clarification of Eximbank policies on other issues of particular concern to Israel. It was agreed that the facilities of the Eximbank will continue to be available and active in financing U.S. exports to Israel. The U.S. delegation noted that Eximbank is also prepared to guarantee to a U.S. lessor payments by Israeli lessees for U.S. equipment provided to Israel under leasing agreements.

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The Committee welcomed passage by the U.S. Congress of the Trade Act of 1974 which provides the basis for trade negotiations between the United States and Israel in the context of the multilateral trade negotiations (MTN). The parties noted that U.S. authority under the Act allows the reduction to zero of most duties of 5 percent or less and reduction of up to 60 percent on most higher duties. Israel's negotiating authority also will be sufficient to allow the elimination or reduction of tariffs on a range of items of interest to U.S. suppliers. During the Committee sessions, an exchange of views occurred on tariff and non-tariff barriers which were likely to be negotiated in the MTN. The Committee discussed the provisions of the Act concerning the Generalized System of Preferences and agreed that the two governments will hold early consultations with the view of extending such preferences to Israel, consistent with the provisions of the Act.

Israel has been approved as a supplier of AID-financed commodities and services and as a supplier for off-shore procurement of Department of Defense (DOD); Israel will be informed about further opportunites.

A procedure has been developed to assist Israeli producers to sell products and spare parts to DOD suppliers, and DOD will facilitate such purchases and take measures to assure Israeli producers that they will get full and fair consideration in bidding for DOD procurement contracts within opportunities permitted under present legislation.

The Committee agreed that Government officials of both parties engaged in promotion of foreign trade, including the commercial attaches of both countries will meet from time to time to discuss in detail ways and means to generate export promotion activities of all kinds to be organized in both countries, review the effectiveness of current promotion activities and recommend new promotion programs where needed.

The Committee took note of the U.S. Department of Commerce's planned "Intellectual Assets" Trade Mission, to be composed of U.S. executives interested in commercial, Trade and technology transfer.

V. Supply and Storage of Raw Materials

The members of the Committee recognized the special circumstances that characterize Israel's trade, particularly in food and feedgrains, and the importance of assuring Israel's access to raw materials. In order to meet Israel's special needs and circumstances to the maximum extent feasible, the Department of Commerce will use its good

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offices as appropriate to facilitate Israeli purchases of essential raw materials from U.S. private sources. The Israeli Government will send a mission to acquaint itself with these sources, and discuss contingent plans to assure supply. The Government of Israel will submit to the U.S. Government a detailed annual plan of its grain and raw material purchases in the United States.

In the event that it becomes necessary for the USG to impose short-supply export controls, these purchase plans will enable the U.S. to give sympathetic consideration to Israel's situation and allow Israel equitable access to U.S. supplies of commodities and raw materials during the period of short supply.

The Committee noted that a procedure has been developed to provide for potential purchases by Israel directly from the excess stockpile administered by the General Services Administration (GSA).

The Committee also took note of Israel's need to expand and modernize its food and raw material storage and warehousing facilities. The Committee recognized the need to attract investment and technology for the expansion of storage facilities and recycling plants in Israel and agreed to consider ways of facilitating these activities. To this end, a U.S. technical team will visit Israel shortly for an on-site survey of Israel's existing storage facilities and will help develop a construction plan for additional facilities. An Israeli mission will also visit the United States to study U.S. storage technology.

VI. Scientific Cooperation

The committee reviewed favorably the progress achieved under the jointly funded U.S.-Israel Binational Science Foundation which had been established in 1972. Both sides agreed that the Foundation has played a useful role, and that it would be desirable to strengthen our scientific relations. It was agreed, subject to any required legislative approval, to explore means to widen the scope of operations of the foundation and strengthen its financial basis. Negotiations to this end will take place soon and the conclusions and recommendations will be submitted to the Committee at its next session.

The Committee reviewed the status of the proposed joint water desalting project, which has undergone a lengthy period of evaluation. The Committee noted that the Congress has previously authorized and appropriated up to $20 million as the American share of the capital and initial operating costs of the project. Both sides agreed that it was now feasible to proceed with the arrangements for the design,

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construction and initial operation of a large-scale prototype plant and to negotiate a technical agreement subject to the necessary consultations with the Congress. A U.S. technical mission will visit Israel in the near future.

VII. Industrial Research and Development

The Committee discussed the importance of expanding industrial research and development in Israel. The United States Department of Commerce and the Israel Ministry of Commerce and Industry were designated as focal points to facilitate cooperative industrial research and development activities. These agencies will encourage direct contact between departments of the two Governments and bodies in the private sectors, such as the Industrial Research Institute and the Licensing Executive Society; will assist in defining possible cooperative ventures; and will promote the exchange of technical information between American and Israeli organizations in the science and technology field.

The Joint Committee agreed to establish a U.S.-Israel Steering Committee for Industrial Research and Development composed of representatives from interested agencies of the two Governments. This Steering Committee will outline policies and formulate priorities to enhance mutual research and development efforts with specific industrial applications.

The members of the Committee agreed that the two Governments will undertake to encourage the dissemination of information on Israel's research and development potential and capacity within professional and industrial organizations in the U.S., especially through greater exchanges of people and information between Israel and the United States.

The Joint Committee also welcomed a United States-Israel Industrial Research and Development Council in which United States representation would be from the private sector. The Council, which would include leading R&D executives, scientists and engineers, would assist in promoting closer links between United States and Israeli enterprises in the science and technology area.

The parties agreed on the desirability of developing a program to support mutually beneficial industrial research and development activities in Israel. To this end, it was agreed that the two governments would begin as early as possible discussions to formalize the program's scope and organization, and to determine the financial arrangements that the two governments would undertake in support of the program and its management.

VIII. Future Meetings

The members of the Committee decided that future meetings of the Joint Committee for Investment and Trade should take place at least once each year to review issues affecting the economic relationship between the two

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countries and to develop means of expanding economic co-operation between the two governments as well as between the people of both countries, including exploring the possibility of entering into appropriate, formal arrangements which will regulate the various joint activities and define broad principles of cooperation. The next meeting of the Joint Committee will be held in Jerusalem.

The Committee announced establishment of a Joint Steering Group to oversee implementation and coordination of the measures agreed upon by the Committee. The Steering Group, which will report to the co-chairmen of the Joint Committee, has also been charged with the responsibility of investigating possible new cooperative efforts and reviewing outstanding bilateral economic issues. In addition, it will undertake preparations for future meetings of the Joint Committee.

Chairman of the Israeli Delegation	Chairman of the United States Delegation
Yehoshua Rabinowitz Minister of Finance	William E. Simon Secretary of the Treasury

SENIOR PARTICIPANTS

US-ISRAEL JOINT COMMITTEE FOR INVESTMENT AND TRADE

May 12-13, 1975

Washington, D.C.

United States

William E. Simon, Secretary of the Treasury, Co-chairman

Charles W. Robinson, Under Secretary of State for Economic Affairs

John Tabor, Under Secretary of Commerce

Gerald L. Parsky, Assistant Secretary of the Treasury for Trade, Energy and Financial Resources Policy Coordination

Alfred L. Atherton, Jr., Assistant Secretary of State for Near Eastern and South Asian Affairs

Marshall T. Mays, President, Overseas Private Investment Corporation (OPIC)

Walter C. Sauer, First Vice President and Vice Chairman, Export Import Bank of the United States

Israel

H. E. Yehoshua Rabinowitz, Minister of Finance, Co-chairman

H. E. Simcha Dinitz, Ambassador to the United States

Avraham Agmon, Director-General, Ministry of Finance

Dr. Moshe Mandelbaum, Director-General, Minister of Commerce and Industry

General (Res.) Moshe Goren, Director, Israel Investment Authority

Ze'ev Sher, Economic Minister, Embassy of Israel

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

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FOR IMMEDIATE RELEASE MAY 13, 1975

SECRETARY SIMON AND ISRAEL MINISTER OF FINANCE RABINOWITZ INITIAL DRAFT INCOME TAX TREATY

Secretary of the Treasury William E. Simon and Israel Minister of Finance Yehoshua Rabinowitz today initialed a draft income tax treaty between the United States and the State of Israel. As soon as conformed English and Hebrew translations are prepared, the formal agreement will be signed, transmitted to the United States Senate for ratification, and released.

The primary objective of the convention is to promote economic and cultural relations between the two countries by removing tax barriers to the flow of goods and investment and the movement of businessmen, technicians and scholars. It provides also for nondiscriminatory tax treatment and reciprocal administrative cooperation to avoid double taxation and to prevent tax avoidance.

In general, the convention is similar to the approximately twenty-five U.S. tax conventions already in effect. It provides that business profits of a resident of one Contracting State shall be exempt from tax by the other Contracting State unless such profits are attributable to a "permanent establishment", e.g., a fixed place of business, located in that other Contracting State. Generally, residents of one Contracting State are taxable by the other Contracting State on their personal services income only if physically present in that other Contracting State for more than 183 days during the taxable year. Special rules are provided for teachers, students and trainees to encourage academic and scientific exchanges. The convention also establishes the maximum rates of tax which may be assessed at the source on dividends, interest and royalty income.

WS-302 (more)

The convention contains several special provisions which are intended to clarify the interaction of U.S. and Israeli tax laws in particular circumstances. It specifies that for United States tax credit calculations compulsory loans to the Israeli Government will be treated as income taxes in the year incurred with appropriate adjustments to tax upon repayment. Since Israel anticipates a governmental grant program to stimulate certain types of economic development, the convention clarifies the characterization and treatment of those grants for U.S. tax purposes, generally treating qualifying grants as nontaxable capital contributions.

Upon ratification by the U.S. Senate, the convention will take effect on the first day of the second month following the exchange of instruments of ratification with respect to withholding taxes, and in the year following such exchange with respect to other taxes.

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Colorado's Thanks to Banks Day.

Hello, I'm delighted to be here today. Colorado is my second favorite state -- after New Mexico -- and it has been for years. My father was born in Cripple Creek, and my husband Ed and I have a terrific summer home in Creede, where we love to fish and "get away from it all." I would be very happy if President Gerald Ford made Vail his summer White House, and moved official Washington out here when it's "springtime in the Rockies."

I'm also pleased to be here because I enjoy being with bankers. I have enormous respect for your work, because you bankroll the improvements that come to America.

Banks and bankers have been part of America's life since the beginning. When our pioneer ancestors moved out to Colorado and New Mexico, the cast of characters who won the West always included the cowboy, the rancher, the banker , and the dance hall girl -- not necessarily

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Remarks by the Honorable Francine I. Neff before a group of leading Colorado bankers, Colorado Springs, Colorado on May 13, 1975.

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following each other in that order. Your predecessors, who started the little banks needed by miners, farmers and ranchers, were a vivid part of America's early life. And today you remain a vital part of the nation because your services are basic to society and our free enterprise system.

Speaking of free enterprise, you are no doubt aware that the First Women's Bank -- that's the name -- will open soon in New York City, as the first really woman-oriented bank in the nation. I understand that about 15 other women-run banks are being organized everywhere from Maine to Oregon. I admire the courage of these bank organizers in this time of investment money dry-up, and I think it's a fine example of the free enterprise spirit.

I feel strongly about free enterprise, but I must admit I came to this feeling via my husband Ed. For 27 years I have been the wife of a Certified Public Accountant with his own business, and this long and close exposure to the business world gave me a strong belief in our marketplace economy.

I know this belief is not shared by everyone. Most Americans fly the flag for free speech and a free press, but somehow free enterprise doesn't rate as many cheers. And yet this system gives us the greatest mass prosperity -- the highest standard of living -- of any major nation of the world.

To bring it down to basics, I see the free enterprise story as having three "sides" or viewpoints -- that of

the consumer, the worker, and the businessman, who, of course, is also a worker.

We are all consumers, and we know very well that the consumer's viewpoint is "keep down prices on goods and services."

The worker's viewpoint is also well known. Worker and labor unions very legitimately desire higher wages, job retention rights, and more fringe benefits.

But where do we see the third viewpoint -- that of the businessman -- except perhaps on the back pages of the financial section of the newspaper? Who gives John Q. Public, and his children, an informed or sympathetic insight into what the businessman thinks or expects, or what <u>his</u> problems are?

You can look a long time before you find a friendly, front-page story about the problems, or current low profits of corporations. These are complex problems; they are harder to understand then high prices or loss of a job, so most Americans shrug and pass them by.

One result is that American adults, in an opinion poll, said they thought corporations today reaped average profits of 28 percent. In reality, it averages around 5 percent, and the trend is downward, with real, after-tax profits dropping some 50 percent since 1965.

I became personally aware of the distorted view of profits when my son and daughter were teenagers a few years ago. I would talk before teenage groups in different schools, and I discovered that most of these boys and

girls thought businessmen made a profit of around 40 to 50 cents on the dollar. These were bright kids -- yours and mine -- but they were convinced they were right, and they all but called me a liar when I explained the facts.

Economics is not a sexy subject; but I suggest there is something wrong when we fail to provide our children with a reasonable view of their own economic system. We would have better citizens, and better public servants, if our children understood the basics of their marketplace economy.

Many banks are concerned about this. I spoke before the Oklahoma City Chamber of Commerce earlier this month, and was pleased to discover that one of their city's large banks now donates a considerable sum of money to help teenagers demonstrate the feasibility of their own ideas by starting their own businesses. It's no coincidence, I'm sure, that the state of Oklahoma requires all of its schools to include economics in their cirriculum.

I have not mentioned government's role in the economy, although of course we know it holds various safety nets under both the worker and the businessman. There is, I feel, a very negative side to government, in terms of too much control and too large a slice of the GNP going for government spending. However, in the interest of time, I would like to bypass this and expand a little more fully on the question of

financing the national debt.

It is likely that our budget this year will reach and perhaps exceed $365 billion dollars. That's a billion dollars a day, every day of the year, your government will be spending to pay its bills.

Depending on what bills pass in Congress, our deficit for the coming fiscal year alone could exceed $80 billion. And this does not represent the outer limits of what may actually develop as Congress passes new legislature now under consideration.

The Treasury Department will have to borrow 36 to 38 billion dollars for the first six months of calendar year 1975, with an anticipated $40 billion for the remainder of this year. In the week just past, Treasury entered the capital markets for $5 billion in financing, which was a cutback from the planned May-June borrowing.

The Treasury Department is well aware that borrowing very large sums of money may cause strains in the private financial markets. Although financial conditions normally ease during a recession, this time there may be difficulty financing our current large federal deficits for several reasons.

For one, since the current recession came after a considerable period of inflation, private financing demands are heavier than usual. Further, state and local governments have had their tax receipts reduced by the recession, and they will need to borrow substantial sums.

Governments at all levels -- local, state and Federal --

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will borrow an estimated 80 to 85 percent of new funds available this year, leaving less than one dollar out of every five for investment in private enterprise.

Several possibilities may occur. An unhealthy competition between the government and private borrowers might develop for capital funds. Or the Federal Reserve could accommodate these enormous borrowing requirements by creating a more rapid growth in money and credit. In our view, this latter step could mean a re-accelerated inflation followed by a new recession.

Because our economy is currently depressed, the capital market might be able to absorb the combined needs of government and the private sector this year, and then face the real crunch next year, when the economy has gathered steam and the private sector is looking for more money. Thus, if runaway Federal spending programs, combined with permanent tax cuts, become a way of life in America -- and the trend has been this way -- then we could be in for a lot of future economic trouble in the form of an unstable economy and accelerated inflation.

It isn't much fun being a financier these days, but maybe there's hope as long as we can laugh. Someone said to me the other day that the Biblical Noah was our first financier because he floated a limited company when all the rest of the world was in liquidation.

Now, to change the subject somewhat, a number of people have asked me, "How strong is the American dollar internationally?" And, since my name is on your dollar,

I have a very personal interest in this question. 46c

The Treasury's view is that the only long range way to maintain a strong dollar is to put our own economic house in order. With that in mind, we believe dollar prospects are good for several reasons.

First, the U.S. lead in reducing interest rates -- which weakened the dollar last fall -- may be ending. As the recession bottoms out, incentives for interest-sensitive flows could be reversed by a further change in the international interest rate differentials.

Second, while oil producers are diversifying their enormous investments, the United States will continue to receive a very significant share of these investments.

And finally, our competitive position in world markets remains strong. Bad as our inflation is, it is still better than that of many other countries. Further, oil imports to the United States dropped sharply in March, for the second consecutive month, and we posted a surplus of 1.38 billion in our balance of trade.

In the long run, of course, our national economic policy must shift towards more savings and investment and towards less government spending. We have lived too long upon the momentum of past growth. Now we must think in terms of our children's future and plan for the longer run.

But despite all the problems of inflation, recession, and too much Big Government, our free enterprise system still functions and the laws of supply and demand still operate. Further, the Ship of State still sails -- the

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sky hasn't fallen -- and most of us even continue to love and live and fight with our own husbands and wives.

Since I'm an official of the Big Government I've just criticized, you may wonder how I reconcile these personal feelings with my position as United States Treasurer.

I can do this because my job also includes the directorship of the United States Savings Bonds Division. And I like the Savings Bonds Program for at least three reasons.

It is _not_ Big Government.

It is _good_ for America.

And it is _good_ for Americans.

U.S. Savings Bonds are the _nongovernmental_ government program, because 97 percent of people working in the program are unpaid volunteers. Even our advertising program is donated by the National Ad Council. And I feel right at home with volunteers like yourselves, because I was one myself for many years. In fact, I was selling War Bonds way back, several wars ago, in my adolescence.

Savings Bonds are also good for the country, because they are far and away the most stable part of the national debt. E and H Bonds remain outstanding, on the average, for more than six years, as compared to less than 3 years for other marketable instruments. This reduces the job and the cost of refinancing the debt.

Further, Bonds are good for the individual. They teach the basic habit of thrift, and they pay a very competitive 6 percent interest. Banker Tom Prideaux of the

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National Bank of Oregon notes that $75 invested in Savings Bonds monthly since December of 1968, is worth more than $75 invested monthly in stocks making up Moody's industrial index. Further, there are some tax advantages; in fact, I sometimes call our bonds the working man's legal tax shelter.

Savings Bonds sales in 1974 were the highest since World War Two, and this year is even better.

Here in Colorado, El Paso is one of 35 counties in your state that topped its 1974 goals. So far this year, El Paso has attained almost 25 percent of its campaign goal, with sales of more than $1,392,000.

You have terrific results like this because you are terrific volunteers. You know, sometimes at Treasury we think our nation's wealth is buried at Fort Knox. But our real wealth is very much alive; it is people like you who bring the nation something money can't buy -- and that's your time and devotion for worthwhile causes. One of my personal satisfactions as United States Treasurer is the opportunity to thank men and women like you for your contributions to America -- and I mean both the Savings Bonds Program and your many other worthy programs.

Our country will always have problems because that's the nature of life. But with men and women like you working to solve them, they will be solved.

Next year, you have a double celebration -- 200 years as a nation, and 100 years as a great state. At this turning point, let us look backward at our roots, then

forward to our future with the confidence that whatever needs to be done, we will do it.

Thank you.

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

FOR IMMEDIATE RELEASE May 13, 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 $5,600,000,000 , or thereabouts, to be issued May 22, 1975, 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 February 20, 1975, and to mature August 21, 1975 (CUSIP No. 912793 XK7), originally issued in the amount of $2,502,565,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,800,000,000, or thereabouts, to be dated May 22, 1975, and to mature November 20, 1975 (CUSIP No. 912793 XY7).

The bills will be issued for cash and in exchange for Treasury bills maturing May 22, 1975, outstanding in the amount of $4,808,855,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,926,225,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Monday, May 19, 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 $500,000 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 May 22, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 22, 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
SHINGTON, D.C. 20220 TELEPHONE WO4-2041

FOR RELEASE ON DELIVERY
WEDNESDAY, MAY 14, 1975

STATEMENT OF THE HONORABLE CHARLES A. COOPER
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE SUBCOMMITTEE ON FOREIGN OPERATIONS
OF THE HOUSE APPROPRIATIONS COMMITTEE
MAY 14, 1975 AT 1:00 P.M. EDT

Gentlemen, I am here today to support the Administration's request for funding of the international development banks. Over the past three decades the United States has been the leading force in the development and expansion of the World Bank, the Inter-American Bank and the Asian Development Bank. We also assisted with drafting the Charter of the African Development Fund.

I will try not to overburden my presentation with statistical details in order to focus more directly on the basic rationale for U.S. support of these banks. Our Executive Directors at the IBRD, IDB and the ADB will present statements on each individual bank covering such matters as the capital structure and the number and type of loans for their respective institutions. I would like in this introduction, to discuss what the development banks are, what they do, and why it is in the U.S. national interest to support them in their activities.

Let me start off by stating very clearly that we in Treasury do not believe development of the poorer countries is primarily a matter of money. Certainly money is needed. But the key factors determining the success of development efforts are the policies each country follows and the efforts each makes to increase production. The building of sound and efficient institutions in developing countries is essential to assure a maximum development impact from whatever resources are available.

It is precisely in such areas as economic policies and priorities and institution building that the development banks play their most important role. The banks can direct their funds to support successful development efforts made by the countries themselves and thereby reinforce their technical and policy assistance roles. We continue through our Executive Directors to stress in each of the banks that simply lending money is not enough and that the bank's role in helping improve the priorities and institution building capabilities of developing countries is fundamental.

The development banks have developed highly competent professional international staffs which help the developing countries with the complex problems of priority setting and institution building. These international staffs bring together outstanding professionals from both developed and developing countries. In both the World Bank and the Inter-American Bank there are more Americans than any other nationality and overall Americans make up about 25 percent of the development bank staffs.

From the U.S. national point of view it is clear that these banks encourage development in the poorer countries along lines which are both effective and compatible with our own economy. The development banks of course lend to countries which have a wide range of economic systems. As apolitical institutions the banks do not try to change the basic economic system a country has chosen for itself. However, within this constraint the banks stress the role of market forces in the effective allocation of resources, the development of outward-looking trading economies, the critical role of private enterprise, the importance of spreading development benefits to the poorer people. In recent years the banks have placed greater emphasis on agriculture, the family farm, and cooperatives -- an emphasis we have encouraged and supported. In short, the basic approach of the international development banks to economic development is consistent with U.S. views, including views consistently expressed by the Congress.

We of course believe that use of the market and the provision of incentives and a favorable climate for individual initiative are the most effective ways of speeding development and of sharing the fruits of economic growth among all the people. With the help of these banks a great many of the developing countries are finding, in a very practical and pragmatic way, the advantages of a market-oriented, private initiative approach. There are of course adaptations to local conditions; these are needed and desirable. The multi-national character of the banks strengthens them in assisting with such adaptations, in many cases assisting more effectively than any single bilateral donor could.

Let me take just a few examples to illustrate how the banks promote economic development that is compatible with our own economy and therefore serves our national interests in both the short and long run.

It is important to development that governments are effective in administering large procurement programs honestly and efficiently. For procurement with their financing all the development banks not only require international competitive bidding but also help teach institutions in the developing countries how to administer such bidding fairly and effectively. The borrowing countries as well as our own industry, exporters, and contractors benefit from the insistence by the banks on standard rules in this regard. The borrowers get high quality products and services at competitive prices and our firms are assured access to bank financed contracts. Open competitive bidding practices get built into the procurement systems of borrowing countries and over time they tend to be applied even on non-bank financed projects. Our exporters benefit from the wider adoption of such practices.

The development banks provide substantial support to the private sector in most of the countries where the banks have made loans. They supply capital primarily by lending to domestic development finance companies which both raise additional domestic capital and re-lend to local industry, commerce and agriculture. The banks have made loans through December 1974 aggregating more than $3 billion for this type of catalytic program. In addition, the International Finance Corporation has made a total of 332 commitments in over 50 countries for $1.4 billion to help develop the private sector. Expanding and strengthening the private sector is one way the banks help build economies in developing countries with which our economy can have compatible trade and investment relationships.

Many loans have also been directed towards enhancing the opportunities and ability of private farmers, including small holders and cooperatives, to increase their production and income. By December 31, 1974, the development banks had channeled $7 billion into the agricultural sector. The World Bank, the largest lender, had invested $5 billion, the IDB $1.7 billion, and the ADB $0.3 billion. The development of private farming, including family farms, on a widespread basis is a basic American tradition, and we strongly support the efforts of the banks in this area.

The development banks are part of an international structure in which the developed and developing countries work together on international problems. By cooperating with the other developed countries in funding these institutions we improve the effectiveness of our own efforts. Other donor countries strongly support this cooperative approach and multilateral institutions are being used for an increasing share of total non-communist development assistance.

In 1965, three percent of Official Development Assistance (funds for concessional assistance and capital subscriptions) flowed through the four international development banks (IBRD, ADB, IDB and AFDB). By 1973 their share had grown to 12 percent of ODA. In addition the banks channeled larger amounts to the developing countries through hard loans financed by their borrowing in world capital markets.

Bilateral aid remains, of course, of major importance. There are special aspects of economic assistance that require bilateral programs, especially where we have special techniques or products to impart, where we have special interests in individual projects or programs, or where security considerations are heavily involved. But U.S. support for the multilateral institutions is essential if we are to meet today's and tomorrow's challenges of improving the prospects for the millions in developing countries which our bilateral programs do not reach. By channeling part of our total economic assistance funds through the development banks we help bring forward much larger amounts of assistance from other donors and thereby facilitate faster development of the poorer borrowing countries than would be possible with our money alone. By using the banks we can avoid what could develop into a costly competitiveness among donor countries. The guarantees we and others provide in the form of callable capital, which will probably never be needed, permit the banks to mobilize very large amounts of funds from the private capital markets worldwide.

These institutions provide an effective and cooperative international approach to the economic development of the third world. They provide the developed and developing countries with an established and systematic framework for consultations on economic policies, development needs, and economic performance. The development banks are not debating societies which engage in seemingly endless rhetoric about this or that restructuring of the world economy -- they are working institutions that get things done.

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So far, I have been discussing the merits of the banks as a group of similar institutions and it is reasonable to ask why our funding requests involve four banks -- why not just one? Since most of the developing countries belong to the World Bank, why the need for regional banks? Despite the greater resources and the longer period of experience of the World Bank, the regional banks have an important role to play and reflect the desires and needs of their regional members for organizations aware of and responsive to the unique problems of each region. The regional banks, drawing a large part of their staffs from the countries of the region, have expertise and understanding of local conditions, and local needs and problems which must be taken into account in the transfer of technology to these areas. Larger, more complex projects are usually directed to the World Bank initially, but even then the World Bank often collaborates with the regional banks in joint financing.

Now let me turn to the appropriations which are required to keep these institutions operating effectively in FY 1976. The lending programs anticipated by the World Bank Group, the Inter-American Bank and the Asian Development Bank in FY 1976 approximate 8.2 billion dollars. To provide the U.S. support for this level of lending we are, at this time, asking for appropriations of $820.6 million. This total compares with $1,006 million requested last year, and $619 million actually appropriated for the development banks last year. For several reasons, our contribution, on the order of 10 percent of this year's lending program, provides essential underpinning for much larger flows of assistance to poorer countries. First there is the interdependence of our contribution and those of other donor countries, i.e., we provide only a fractional part of the contribution to each bank or fund -- a third in IDA, somewhat less in the ADB, more in the IDB. Second the banks' capital subscriptions and guarantee authority support the borrowing of large sums in the private capital markets of the member countries. Finally, the repayment of loans provides funds which are then re-lent to support new projects. Japanese and European repayments on old IBRD loans, for example, are helping to finance new projects. Other countries such as Iceland and Gabon are no longer borrowing. There are substantial repayments by many countries that are still receiving loans.

The $820.6 million appropriation being requested for FY 1976 for the individual banks calls for $375 million for

IDA; $275 million for the Fund for Special Operations of the IDB; $50 million for the Asian Development Bank Special Funds, $24.1 million for the paid-in portion of Ordinary Capital of the ADB, and $96.5 million for ADB callable capital. The requested appropriations are for installments of each institution's ongoing program for their resource replenishment. These programs had been negotiated with other donor countries after consultation with Congressional committees. In these negotiations we have sought, and achieved, broader burdensharing. U.S. contributions to these replenishments are essential to insure the participation of others and the continued operation of the institutions at effective levels. The Congress has earlier authorized programs for these purposes, covering these amounts.

I should note at this point that we will later be asking for an authorization and supplementary appropriation to enable the U.S. to participate in the replenishment of the Ordinary Capital of the IDB. This request will be presented after further consultations with the Committee and after negotiations with the other members of the Bank. Also, if the Congress authorizes a U.S. contribution to the African Development Fund, for which bills are pending, we shall be requesting an appropriation for that purpose.

Let me now turn to some particular issues which I know are of interest to the Committee. First, what is the effect of our support for the development banks on our balance of payments? Excluding funds held by the development banks in U.S. financial markets, the total of all the inflows and outflows of dollars resulting from transactions involving the banks from their inception to end 1974 (nearly 30 years for the IBRD) has resulted in a net receipt of about $600 million by the U.S. In addition the banks maintain substantial investments in U.S. financial assets as a result of timing differences between borrowing and disbursement of funds. As of the end of 1974, they held about $1.8 billion in long term investments in the U.S., and they also have large amounts in short term assets.

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The absolute magnitudes of the various types of flows are of course much larger -- e.g., the total net outflow of capital (subscriptions paid-in plus net sales of bonds, loan participation, etc. in the U.S.) totalled over $6-billion as of end 1974, while development bank financed purchases of U.S. goods and services and direct expenditures of the banks in the U.S. totalled nearly $7-billion. Thus, I can safely say that the net balance of payments impact of our involvement in the development banks has been very small indeed, and over time the sums made available as a result of U.S. capital subscriptions and the banks' access to U.S. financial markets have been more than equalled by purchases of goods and services in the U.S.

In addition, of course, some portion of the funds invested in the U.S. awaiting disbursement to finance ongoing development projects will also be spent on U.S. exports of goods and services. Over the years, our share of development bank financed procurement of goods and services has averaged 28 percent. This percentage has fallen off slightly in more recent years as our share of world exports has fallen. We are intensifying efforts to increase the U.S. share. In short, our assistance to developing countries through the development banks does not strain our balance of payments.

In the longer run we benefit, as the development of the borrowing countries proceeds, making them more reliable and active trading partners with which to develop our foreign commerce.

Let me turn now to the reasons President Ford and Secretary Simon decided it was essential for us to ratify the Fourth IDA replenishment. We faced a serious dilemma. In January of this year IDA had virtually exhausted its funds available for commitment. IDA had been operating for six months on advance commitments by other countries against pledges that would become fully effective only when the United States would sign up for the Fourth Replenishment. Those advance contributions were not coming forward. Without U.S. ratification of our $1.5-billion share of the replenishment, the continued use of $3.0-billion in contributions promised by other donor countries was not possible. As most IDA loans are to countries with less than $200 per capita income, the lack of further IDA financing would have slowed development in many of the poorest developing countries. Prompt U.S. ratification was imperative to avoid a situation in which the U.S. appeared to be responsible for stopping a large part of assistance from Western countries to the poorest developing countries.

On the other hand, we are keenly aware that such contributions can only be made through the normal appropriations processes and Congress had not yet considered even the first installment of our contribution to IDA IV. So, to enable IDA to continue its lending to the poorest of the developing countries, the Administration ratified the IDA IV Replenishment with the explicit notification to the IDA that "in accord with customary United States legal procedures, the U.S. contributions will be provided only after enactment of the necessary appropriations bills by the Congress". This is the first time this Committee is formally considering appropriations to IDA IV. I believe that both the burden sharing and other aspects of this replenishment meet the desires of the Committee to hold down U.S. expenditures while expanding the development effectiveness of IDA.

Last year Congressional members raised many questions about the newly rich oil-exporting countries. One of the key questions was: What are these countries doing to assist others? In 1974 the OPEC countries stepped up their aid commitments -- in the form of loans and grants -- to the tune of some $8.5-billion, up from $3-billion in 1973. Disbursements of OPEC assistance totalled about $2.5-billion in 1974. In addition OPEC countries purchased substantial amounts of World Bank bonds and loaned funds to the IMF oil facility. OPEC country aid does not make up for a more than quadrupling of oil prices and their assistance tended to be concentrated in areas close to the lending countries, but these figures do indicate that the OPEC countries are moving into the aid field in a substantial way. We are encouraging them to continue to do so and in particular to provide more of their concessional assistance through the development banks, including early contributions to IDA.

We want to expand the burden-sharing aspect of the development banks' operations by opening new relationships between the banks and capital surplus oil-exporting countries. Continued U.S. contributions are essential, however, if such new relationships are to be brought about. It is clear that others will not give more if we give less. If we maintain our support for the institutions, we can encourage others to do more

The increased financial strength of the OPEC countries offers new opportunities for cooperation with them in respect t the development banks. Most of these countries have in the pas been borrowers of the banks. Now lending to them is being carefully monitored and lending to them on concessional terms has been phased out. OPEC countries are participating in the newly formed Development Committee where new initiatives in meeting overall development needs are being studied.

Venezuela has established a $500-million trust fund, which is being administered by the IDB, thus increasing the resources available to that institution. And while we were disappointed in the lack of concessional resources in this new trust fund, the Venezuelan Government has indicated that it is seeking ways to make available additional funds on soft terms. The World Bank is discussing with OPEC countries the need for contributions to support concessional lending.

Next let me turn to the problem of earmarking. In addition to the appropriations, the Administration is requesting the removal of the "earmarking" provisions of FY 75 appropriations legislation for the Fund for Special Operations of the IDB. We agree with the underlying Congressional interest that the IDB should emphasize projects that directly help low-income groups and we are encouraging bank management in this direction. However, it is not always easy to find sound technical projects which effectively benefit the poor while increasing production or providing needed services at costs which the recipients can afford. Partly because other projects may have higher economic payoff, projects benefitting the lower-income groups may sometimes not be given the highest priority by the borrowing country.

We do not believe that earmarking is the way to approach this problem of reaching the lower-income groups. The Bank is already making substantial loans to cooperatives and will make more new loans to cooperatives this year than the earmarked amount. The Bank is also proceeding with a substantial grant to further the development of credit unions in Latin America. This technical assistance grant procedure promises to be more effective than loans in reaching the poor at this stage when many of the existing credit unions which might be borrowers are primarily urban and middle class and when the need is to spread credit union activity to rural areas and productive activities. Finally, savings and loan associations in Latin America are almost exclusively middle and upper class oriented. IDB lending to such institutions to finance housing that only the relatively well-off, urban population could afford would be inconsistent with the IDB's and our own general development thrust.

The imposition of earmarking flies in the face of the multilateral decision-making process by making the development banks merely the administrator of funds provided under restrictive conditions. If even five or six donor countries engaged in such a practice, the mangements of the banks would find it virtually impossible to support coherent development field. Where there are specific individual programs which the Congress wishes to earmark money to support, this should be done through our bilateral aid program.

We are continuously working at improving our oversight activities in regard to the banks' lending programs and project implementation. Embassy, AID and Treasury officials make visits to projects as frequently as possible. At every opportunity we encourage and facilitate project visits by members of Congress. As I stressed earlier, we believe that the basic thrust of the policies and operations of the developmen banks is in the right direction. We continue to seek improvements. However, given the institutional and multilateral framework in which we participate, we must accept the fact that we sometimes can get results only gradually.

The recent past provides examples of how policies in these institutions can be changed in emphasis. In the case of program loans we have seen the World Bank attaching more conditions to insure more effective economic performance on the part of the borrowing country. We see a greater emphasis on agricultural development as perceptions of the food requirements of the world are refined, largely with U.S. leadership. We see a gradual but growing emphasis on projects to benefit the poorest 40 percent of the population in borrowing countries as the question of income distribution is analyzed. In the past few years our influence has been used to introduce systems of post evaluation of loans and projects into the management systems of the banks as suggested by the Congress and we believe that considerable progress has been made. But in such efforts our influence must be used in cooperation with other member countries and within the structure of the charters of the banks in order to preserve them as effective international institutions.

Mr. Chairman, members of the Subcommittee, what we are looking at here, when we propose additional funding for the international development banks, is part of the world economic agenda -- the agenda of an increasingly interdependent world economy. We continue to be reminded in very forceful terms of the interdependence of nations and the importance of mutual economic cooperation. This part of the agenda involves economic development in the third world -- development assistance. Other areas of interdependence are on the agenda also -- international trade, international finance, energy and raw materials -- and all are closely linked to the question of providing development assistance to less developed countries.

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We seek the cooperation and participation of the less-developed countries in dealing with trade, finance, energy, raw material problems. The less-developed countries give high priority to the prospects for their own economic development and they seek to maximize the assistance which can be obtained from the developed and other more fortunate countries. The continuation of our assistance in financing their development is closely related to their ability and willingness to cooperate with us in other economic fields.

In this statement I have tried to address the matter of appropriations for the international financial institutions as a whole, but we have separate statements on each of the institutions which our Executive Directors, Mr. Reynolds, Mr. Porges and Mr. Beach, will present. I would like to submit a statement on the African Development Fund for the record.

In view of the Committee's interest in project information, we are also annexing sample data on lending in three countries. We are providing this additional material for the record for the first time this year to illustrate the role and impact of development bank lending activities in the context of individual countries. We are, of course, prepared to supply data on additional projects, countries, or additional information on the international financial institutions at your request.

Mr. Chairman, you and this committee have a difficult task in weighing the many appropriations for foreign operations. In conclusion I ask that you keep in mind the importance of the broad framework of international cooperation of which the development banks are an integral part as you consider the appropriations needed for these banks to do their job of accelerating development worldwide.

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AFRICAN DEVELOPMENT FUND

On April 17 of this year, the Administration submitted a bill to the Congress to provide for U.S. participation in the African Development Fund (AFDF). If the Congress passes this legislation authorizing a $15 million U.S. participation in the AFDF, the Administration has proposed for later transmittal a request for $15 million in appropriations, to be made available to the AFDF in three equal annual installments of $5 million each.

The AFDF is the concessional loan arm of the African Development Bank (AFDB). The AFDF was established in June, 1973, to complement the activities of the Bank by providing low-interest financing for high priority projects in the poorest nations in Africa. The Bank itself was established in the early 1960's to assist in the economic and social development of the newly independent African nations and to provide economic cooperation among them. The Bank's membership is composed of 39 African countries, with no industrialized members.

Through December 31, 1974, the African Development Bank had authorized $217.2 million for Ordinary Capital loans, mainly in the areas of transportation and public utilities. Its paid-in capital amounted to $445.4 million, and it had about $11.0 million of borrowed resources. All the Bank's loans have been made at near market terms (up to 8-1/2 percent with maturities of 10 to 20 years).

In an effort to increase the involvement of non-regional industrial nations in African development efforts the Bank undertook discussions with the United States and other countries to establish a concessional loan facility associated with the Bank. After six years of negotiations, and with U.S. assistance in drafting the charter, the Fund was inaugurated in July, 1973. The present participants in the Fund are thirteen donor countries from Europe, Brazil, Japan, and the member countries of the African Development Bank.

The Fund is legally separate from the Bank and managed by its own Board of Directors, half of whom are chosen by the Bank and half by the donor countries, six for each group. Loans are made at a 3/4 of one percent service

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charge, with a fifty-year maturity including 10 years of grace. A 75% weighted vote is required for all operational decisions. The Fund uses the Bank's staff and draws upon its expertise.

Since the Fund's establishment, donor nations have pledged about $135 million in concessional loan resources and the Bank has contributed another $8.8 million.

From the beginning of its operations in mid-1973 through the end of 1974, the Fund has made 17 loans totalling $46.3 million to finance development projects and feasibility studies in thirteen countries. Seven of these loans for $18.5 million have been for long term development projects such as village wells, roads, earthen dams, and rice development in the drought-affected countries of the Sahel (Mauritania, Mali, Upper Volta, and Chad).

The proposed U.S. contribution of $15 million for the African Development Fund -- which represents about 10 percent of the contributions so far pledged -- would bring the level of total contributions to about $158 million. The United States would be the fourth largest contributor, after Canada, Japan and Germany, which have each pledged over $16 million.

Because the U.S. participated in the drafting of the Agreement establishing the Fund, we were eligible to be an "original participant" had we contributed to the Fund by December 31, 1974. This would have made our membership in the Fund automatic and entitled us to elect an Executive Director at the next election of Directors. Because we did not meet the deadline, the terms of our membership are not at this moment defined. We believe that if the proposed authorization is approved we can negotiate membership in the Fund under terms similar to the original charter conditions.

Our relations with Africa are becoming more significant as U.S. traders and investors are drawn increasingly to the continent. Participation in the Fund is consistent with our national interest in building cooperative economic relations with the African nations and would be viewed by these countries as a clear indication of our interest in their growth and prosperity. We also stand to gain access to a potential source of export earnings when we join the Fund since, under the Articles of the Fund, procurement of goods and services for projects is restricted to member nations.

In addition to these benefits which should accrue to the U.S. from a comparatively modest participation in the Fund, it should be noted that the actual budget impact of the $15 million contribution will be spread over several years. Initially, our contribution would take the form of non-interest bearing letters of credit which become budget outlays only when cashed as needed. The outlays would probably total $2 million in each of the first two fiscal years of our participation and about $4 million in each of the ensuing two years.

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COLOMBIA

THE IMPACT OF THE IFI's

Two of the international financial institutions (IFIs), the World Bank and the Inter-American Development Bank, have had and continue to have large lending programs in Colombia. Through December 31, 1974, the World Bank had made 58 loans totaling $1,147.9 million and the IDB 70 loans totaling $620.3 million (see Table I). Loans on "hard terms" to Colombia from the IBRD and IDB (Ordinary Capital) totaled $1,447.3 million, or 81 percent of the funds approved. The remaining 19 percent of the funds on "soft terms" included 1 credit from IDA (1961) for $19.5 million and 28 loans from the FSO for $233.6 million of the IDB and 12 loans for $67.8 million from other sources, including the Social Progress Trust Fund, administered by the IDB.

Table I

Sector

Institution	Agric.	Ind.	Power	Trans. & Comm.	Health & Water Supply	Pre-Investment	Educ.	Urban	Total
World Bank									
Number of projects	8	7	19	15	5	1	3	-	58
Amount ($ million)	84.1	252.5	350.2	286.2	131.6	8.0	35.3	-	1,147.9
IDB									
Number of projects	11	8	13	7	12	7	6	6	70
Amount ($ million)	89.0	37.0	233.0	87.0	56.3	12.1	27.6	78.3	620.3
Total									
Number of projects	19	15	32	22	17	8	9	6	128
Amount ($ million)	173.1	289.5	583.2	372.2	187.9	20.1	62.9	78.3	1,768.2

For the most part, the IFIs have directed their efforts to production-oriented activities which carry social as well as economic benefits. Projects are developed to combine the objectives of increasing output with increases in employment and improving the incomes of the poor, particularly in the rural areas. For example, the IBRD made a $5 million loan to Colombia's Institute for Agrarian Reform (INCORA) to develop 6,000 hectares for dry farming by supplementing the flood protection and drainage works and it will extend the area being improved by another 11,000 hectares. The benefits are measured in terms of the increased employment and the production of crops and milk resulting in increased income for approximately 1,800 farm families.

Past Loans

In agriculture, for example, loans are made to improve extension services, credit for fertilizer, seed and other on-farm investments, and for farm-to-market or access roads. In addition, funds are also made available to improve marketing systems. The IBRD has financed improvements for wholesale food markets in Bogota, Cali and Medelin. The project includes not only the construction of new facilities but, more importantly, it includes introducing product grading and standardization as well as the development of price information systems. Similarly, IDB's loan to the Empresa de Energia Electrica de Bogota ($21.0 million) included funds for the extension of electricity to 15 rural communities and to 24 smaller localities involving the construction of 70 km of 34.5 kv rural feeder lines and 95 km of secondary lines. Although the extension of service is not directly profitable, it is hoped that by improving services to rural communities the migration to the overcrowded low income "barrios" of cities will be reduced.

Both IBRD and IDB have been active in the "social" sectors, particularly improving water supply and sewerage facilities. These loans are concerned directly with improving the "quality of life" by increasing the water available and extending the distribution system in the cities, particularly to low income areas. The same projects usually extend the sewer systems intended also to contribute to improving environmental conditions by raising hygienic standards and reducing pollution. The quality of life is also directly affected by the loans for education. The IBRD has concentrated on secondary education and the IDB on university education. For both institutions, the objectives are the same, namely increase the efficiency of the system by reducing the number

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of drop-outs and eliminating repeaters, and redirecting the curricula along the lines required by Colombia's economic growth. The IBRD has focused on providing more diversified secondary education for 109,000 students by introducing new curricula combining practical and academic subjects geared to current economic requirements. As such, the project will contribute significantly to reducing the proportion of students in the "academically" oriented secondary schools from 70 to 55 percent. The project is also assisting a program for rural comprehensive secondary schools enrolling 7,000 students, thereby providing a lower secondary education that is now lacking in rural areas. The IDB's efforts in the universities is similarly directed but, additional attention is also being paid to encouraging students from low income groups through the use of student loan funds to attend universities thereby fostering equal educational opportunities. A great deal of attention is being given to future manpower needs particularly in engineering and agronomy, two fields directly related to economy's requirements. IDB's loan to the Industrial University of Santander is expected to facilitate an increase in the proportion of students in fields directly related to requirements from 12 percent in 1971 to 43 percent by 1975.

The historical emphasis of the Banks on infrastructure projects, i.e., power, transport and communications, stems from the need to develop and utilize Colombia's hydro-electric resources, not only to supply the growing needs of the economy, but also to substitute for the more expensive thermal systems. Moreover, the development of a transportation system is a necessary complement to other economic activities, particularly in the case of Colombia where the difficult terrain adds significantly to the cost of economic activity. Moreover, many of the transport projects are directly related to programs in industry and agriculture to eliminate the economy's dependence on coffee by encouraging other exports and lowering transportation costs.

Current Activities

Over the next several years the IFIs are expected to make an increasing contribution to agriculture and industry, with particular emphasis on projects involving small and medium size farmholdings and industrial enterprises. The other major focus of activities will be in such social sectors as education and water supply. Projects in the traditional sectors of Bank lending -- electric power and transportation -- are likely to be continued but only where the assistance is required to facilitate necessary institutional development. Nevertheless, the Banks' past as well as future activities in these sectors provide the basic support necessary for forward progress in the more directly productive sectors such as industry and agriculture.

Economic Growth

Although it would be difficult to draw any direct relationship between the Banks' programs and Colombia's economic growth, the country has shown impressive gains in the recent past. The rate of economic growth has accelerated to more than 7 percent per annum, and the expansion of non-traditional exports has been remarkable. Exports of manufactured goods have increased from $148 million in 1970 to an estimated $829 million in 1974, an increase of more than five times. Such improvements are very much needed in order to accelerate employment generation and to raise gross national product per capita, currently $400 to a more acceptable level.

Colombia's efforts to expand exports have been amply rewarded in recent years. Total merchandise exports amounted to $1,334 million in 1973, of which over half came from non-coffee items. Allowing for price increases, this represents a fourfold increase (representing an average annual real growth of 24 percent) in non-traditional exports since 1965-67. Rapidly expanding exports accompanied by more slowly raising imports have improved the balance of payment position.

Nevertheless, Colombia also needs to spread the benefits from growth more widely in order to surmount problems of poverty and population pressures in both rural and urban areas. Concentration of land ownership, technical backwardness, and under-employment characterize most rural areas. In urban areas, pressures of population growth, compounded by heavy migration from the countryside, have generated serious unemployment and a severe housing deficit. Prospects for coping with these problems seen brighter as a result of the accelerated growth upon which the Colombian economy has embarked in the past several years.

ANNEX II (B)

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REPUBLIC OF KOREA

Impact of the IFIs

The World Bank, the IBRD and IDA, and the Asian Development Bank (ADB) have been important but not the only contributors of capital resources to Korea's economic growth. Only 11 percent of gross public capital inflows for 1974 come from the International Development Banks.

Past Loans

As shown in the table below the World Bank and ADB made 46 loans totaling $946.1 million to Korea through December 31, 1974. The World Bank made 23 loans for $609.8 million, including 8 IDA credits for $107.3 million. The ADB extended 23 loans for $336.3 million. Only one of these loans, for vocational training institutes totaling $3.7 million, was from Special Funds, i.e., on concessional terms. Consequently, Korea has received very little in the way of concessional assistance from the IFIs.

Table I

Sector

:itution	Agric.	Ind.	Power	Tourism	Transport & Communications	Health & Water Supply	Educ.	Total
ld Bank								
ımber of Projects	7	4	-	1	8	-	3	23
nount ($ millions)	130.5	95.0	-	25.0	301.5	-	57.8	609.8
ın Development Bank								
ımber of Projects	2	9	3	-	5	3	1	23
nount ($ millions)	32.3	177.0	42.1	-	41.1	40.1	3.7	336.3
al								
umber of Projects	9	13	3	1	13	3	4	46
nount ($ millions)	162.8	272.0	42.1	25.0	342.6	40.1	61.5	946.1

Between 1960 and 1974 manufacturing output grew at an annual average rate of 18 percent and the export of manufacturers at an even faster rate. This expansion placed a severe strain on the transport sector, mainly because of the relatively modest amounts invested previously in this sector. Because of this deficiency and because of the large capital requirements for such projects, a significant portion of the IFI's investments were in the transport sector. For example, the World Bank made four loans to the railroads alone totaling $109 million. The benefits are in the form of lower transport costs and the avoidance of diverting bulk traffic to more expensive transport modes. Some railroad investments will also facilitate and reduce the cost of coal, whose production is being encouraged as a substitute for imported petroleum.

The IFIs are also helping Korea develop a balanced transportation network. The ADB-financed the Seoul-Inchon Expressway, an important link between the industries concentrated around Seoul and the port of Inchon. The IBRD is also helping to improve the national highway network. The roads selected for construction, improvement or paving under one project alone constitute nearly 9 percent of the entire national road system. Further, it will help establish an urgently needed maintenance system to protect the large investments already made. These road projects will help reduce the present high road transport cost by lowering vehicle operating costs and saving passengers' travel time, and they will provide year-round access to and within several relatively isolated areas. Finally, the Bank has also lent funds for port improvements at Busan and Mukho. These two projects consisted of both cost reducing and capacity increasing investments.

Both ADB and the World Bank have been active in the industrial sector, mostly by channelling funds through intermediate credit institutions (ICIs) rather than through direct loans. The ADB has made seven loans totaling $145 million and the World Bank four loans for $95 million to the ICIs. The Korean Development Finance Corporation (KDFC) has been the largest recipient receiving five loans from the Banks totaling $125 million. These funds have provided the foreign exchange needed by sub-borrowers to carry out their investment projects. The KDFC was established to assist private enterprise by providing medium and long-term financing. While these external funds are not a majority of the funds required, they are indispensable and act as a catalyst. KDFC's role and the other ICIs has been more important because

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of the high professional standards maintained, particularly in appraising projects which, in turn, encourages other capital contributors to associate their capital with them.

The Medium Industry Bank (MIB), a recipient of three loans from the ADB totaling $55 million, concentrates on financing the foreign exchange cost of small and medium-sized enterprises engaged in manufacturing, mining, transportation and construction. Small and medium-sized industries play an important role in Korea; for example, in 1971 they constituted 97 percent of total manufacturing establishments, employed 45 percent of total manufacturing employment, and contributed 28 percent of total manufactured exports. The Korea Development Bank (KDB), also the recipient of three loans from the ADB totaling $60 million, concentrates its attention on medium and long-term loans. In 1973, it accounted for a little under half of all medium and long-term loans made by the banking sector; it directly financed 8 percent of total fixed capital formation and 16 percent of total fixed investment in the manufacturing sector.

The Banks' participation in agriculture is designed to increase productivity and incomes and, in general, improve the quality of rural life. For example, the World Bank is financing an agricultural credit project to help finance sub-loans for approximately 12,000 farmers for fruit orchards, seri-culture, and the breeding of poultry and swine. The Bank is also helping to finance the Yong San Gang irrigation project to irrigate 33,000 hectares in one of the most drought-prone areas of Korea. The project will not only bring about substantial increases in production, mostly through higher productivity, but production activities will shift from the traditional rice-barley sequence into higher value crops including garlic, potatoes, cabbage and fruit. ADB is also involved in agriculture and it is financing part of an irrigation system south of the Imjim River. This project is expected to increase production thereby increasing self-sufficiency in food production and saving foreign exchange totaling $2 million per year, as well as increasing income about $1,200 per farm household to an average annual income of $3,100.

The IFIs' loans in the "social" sectors consists of 7 loans for $101.6 million. The ADB is financing two projects for $34.4 million to improve and expand the potable water supply system for Seoul. The project will benefit a total population of 7 million people and it will improve the quality of the water for industrial use.

In the education sector, the IFIs have focused their lending on vocational education and training. The IBRD has financed two projects, one has been focused on the expansion and equipping of 27 technical, commercial and agricultural high schools, five post secondary higher schools and four teacher training departments. The second project was to provide equipment for extensions to buildings of 18 technical and 14 agricultural high schools; 10 higher schools/junior colleges for industrial, agricultural, fishery and nursing training; colleges of agriculture, engineering and natural sciences in nine universities and a merchant marine college. The ADB's project was to establish a series of vocational training institutes. These projects will contribute by providing the skills required by Korea's economic growth.

Current Economic Situation

Korea's economic performance over the last decade has been outstanding. In the period 1964-73, the GNP growth rate average 10 percent a year in real terms, and real per capita income more than doubled. The rapid rise of output and an appreciable decline in the population growth rate were major reasons for the rapid rise in income. A key factor in the growth of the economy has been the increase of manufactured exports from $60 million in 1964 to $2,800 million in 1973. This growth transformed Korea from an economy dependent on agriculture to one based on increasing industrialization.

Nevertheless, Korea is faced with two economic problems. There is the resource management problem resulting in the heavy reliance on external capital and the question of distributing the growth benefits, arising out of faster productivity growth in manufacturing than in agriculture. Although income distribution is generally more equitable in Korea than in other comparable developing countries, the benefits of economic growth have not been shared evenly. Furthermore, the favorable economic developments were interrupted by external developments in 1974. The sharp rise in the price of petroleum, the recession in the Japanese and U.S. economies and the high level of grain import prices combined to bring about a major change in short run economic prospects. Owing to its poor natural resource endowment and because of its economic structure and growth strategy, Korea was severely affected by these international developments. The balance

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of payments position was weakened, the growth rate for output and employment slowed, and inflationary pressures increased. The Government is, however, taking the necessary policy measures to combat these problems. In general, the Government is also committed to accepting the necessary adjustment arising from the high energy and other import costs.

Future Activities

The IFIs are participating in Korea's drive to improve its economic position by shifting its focus of attention to agriculture. A recent IBRD agricultural sector mission provided the basis for a number of additional high priority agricultural projects. A second livestock project, the second stage of the Yong San Gang irrigation project, Okseo irrigation and regional development project and the Miho Cheon and Naeseong-Cheon watershed development project have been identified and are under preparation. A rural infrastructure project and follow-up projects in irrigation and agricultural products processing are also being considered. Another major emphasis in Korea's current economic plans is the development of industries such as steel, shipbuilding, and machine tools which IFIs are likely to participate in, if only indirectly through the ICIs. The further development of the industrial and agricultural sectors and of exports will require concurrent infrastructural development but the transport sector will be given relatively less emphasis than in the past.

KENYA

The Impact of the IFIs

Background

In terms of overall growth, Kenya's economic performance has been impressive in almost all respects. During the period since 1964, GDP has grown at an average rate of about 7 percent in real terms, which has allowed significant gains in per capita income despite the high population growth rate. Average per capita income had risen to $180 in 1973, which is about the median for African countries. This growth rate has been supported by a high and growing rate of investment in both the public and private sectors. In the early 1970s, fixed capital formation accounted for over 25 percent of monetary GDP, which is an exceptionally high investment rate. The role of the IFIs, particularly the World Bank, has been not only to supply capital but also technical assistance. Most of the technical assistance has gone into "institution" building and assistance in the preparation of projects suitable for external financing.

Past Loans

The IFIs active in Kenya, the World Bank and African Development Bank (AFDB), have made a total of 27 loans for $263.7 million (see Table I). In addition, Kenya has been one of the beneficiaries of nine loans totaling $205.8 million which have been extended from the World Bank for the development of common regional services (railways, ports, telecommunications and finance for industry) operated cooperatively for the three Partner States of the East African Community - Kenya, Tanzania and Uganda. Of the World Bank's direct lending, $253.6 million, almost half, $122.8 million, has been from IDA on concessional terms. This high proportion of concessional assistance is due to Kenya's low per capita income. On a sectoral basis, most of the World Bank's lending to Kenya has been for infrastructure, particularly transportation. This is also true for the AFDB which has extended three loans totaling $8.9 million for transportation. Other sectors, particularly agriculture, but also education, family planning and water supply have also received some support.

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	Sector							
titution	Agric.	Ind.	Power	Transport & Communications	Water Supply	Pop.	Educ.	Total
ld Bank								
umber of Projects	8	1	1	9	1	1	2	23
mount ($ millions)	52.6	5.0	23.0	139.6	8.3	12.0	13.1	253.6
ican Dev. Bank								
umber of Projects	-	1	-	3	-	-	-	4
nount ($ millions)	-	1.2	-	8.9	-	-	-	10.1
al								
umber of Projects	8	2	1	12	1	1	2	27
nount ($ millions)	52.6	6.2	23.0	148.5	8.3	12.0	13.1	263.7

The transport sector has received about 56 percent of the total funds lent by the IFIs to Kenya directly. One of the loans in this sector was the first World Bank loan for airports ($29 million). The funds not only helped construct the new international terminal buildings but aprons, parallel taxiways, control towers, etc. Moreover, the loan also financed assistance to improve and strengthen the new Aerodromes Department of the Ministry of Power and Communications. Kenya earns over 12 percent of its foreign exchange from tourists. The growth of tourism in recent years has made it one of the most rapidly expanding sectors of the economy. With the great majority of tourists arriving by air, the improvements to the Nairobi Airport were considered among the highest investment priorities.

The bulk of the World Bank's investments in transportation as well as the AFDB's investments are in roads directly related to agriculture. They have financed several projects for the constructon and improvement of feeder roads, tea collection roads, settlement and selected trunk roads throughout the country. The main economic benefits of these roads are the increased level of agricultural production induced by improving the infrastructure, as well as the benefits from lower vehicle operating costs. Some of the feeder and trunk roads included in the projects are extensions of roads constructed under previous projects or improvement of such roads as a result of traffic increases. Most of the roads will ensure all weather access to factories and markets for the smallholders which, in turn, should encourage these farmers to produce perishables, particularly milk. The World Bank has also financed improvements on the major road links of Kenya; for example, it has financed improvements on the busiest section of the Nairobi-Mombasa trunk route and the international trunk road to Tanzania. Traffic on these sections is currently 10,000 vehicles per day and is conservatively estimated to double in the next ten years.

The World Bank has financed a total of 8 projects in agriculture totaling $52.6 million. Agriculture has received priority attention due to the recognition by the Bank that most of the assistance must be in the directly productive sectors and where there will be a maximum impact on new employment. For example, the Bank has lent funds to the Kenya Tea Development Authority (KTDA) to finance sub-loans to 17 factories to process tea. As a result of the project, new employment will be provided for some 2,000 workers; and it will enable some 35,000 growers to obtain, at maturity of their plantings, an average annual income of $170 after all payments to KTDA. This is appreciably more than they could obtain from the production of alternative crops in the tea areas. Moreover, the project is also expected to earn $18.0 million a year in foreign exchange as a result of the additional tea exports. Other agricultural projects include funds to help finance medium and long-term loans for on-farm investments and machinery, as well as short term loans for incremental working capital and providing improved management and technical services to individual farmers. Some of the projects are designed specifically for the smallholder. These projects extend credit to small commercial farmers, with net incomes of no more than $200 per year. One project is focused on financing smallholder farm investments in crop production (about 3,000 loans); livestock (4,000 sub-loans); poultry (700 loans) and machinery (100 loans). It is estimated that about 8,000 farmers will receive financial support providing about 7,600 full time jobs and incremental farm wages of approximately $0.3 million annually excluding any secondary employment effects.

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The World Bank has also been active in education, family planning, improving water supply systems, and sites and services. In education, the Bank has financed two projects for $13 million. The first project increased the number of places in general secondary schools, technical schools, and primary teacher training colleges. The second project concentrated on supporting agricultural education at the secondary level and assisted in establishing Kenya's first university Faculty of Agriculture.

The population project is focusing on training an adequate number of paramedical field personnel to extend family planning services; strengthening the rural health system infrastructure; and developing an appropriate institution to support family planning services. The main objectives are to improve maternal and child health and to strengthen and extend the delivery of family planning services which, by 1984, are expected to substantially reduce malnutrition and infant mortality. The program is expected to result in the recruitment of 640,000 new acceptors and avert some 150,000 births by 1979. This will reduce the crude birth rate from about 48 per thousand in 1974 to 43 in 1979, a decline in the rate of natural increase from an estimated 3.3 percent to about 3.0 percent.

The sites and services project represents a new approach to providing new, improved housing as well as city services - including water supplies, sewerage, and power - to low income citizens on a large scale. This particular project will finance 6,000 serviced lots for self-help housing together with the related on-site infrastructure and community facilities; financing for materials loans to enable allotees to construct self-help dwellings on the lots; and trunk sewerage to service the site. This particular project is one of the first of its kind the Bank has done and it is expected to demonstrate the value of this approach to alleviating housing shortages in Nairobi as well as other cities and towns. The basic advantage of the approach is the provision of housing at a lower cost than has hitherto been achieved. The project will directly assist 6,000 households in obtaining shelter, will provide self-help employment opportunities for project beneficiaries and it will stimulate the construction industry.

Current Economic Situation

In spite of Kenya's good economic performance, it is still a very poor country. Moreover, the exceptionally high investment rate has put a strain on Kenya's economic resource base and subsequently on the balance of payments, despite the fact that the domestic saving rate, about 20 percent, is one of the highest in the developing countries. Additionally, Kenya must deal effectively with unemployment and rural poverty if it is to maintain or increase its rate of economic growth. However, a number of indicators suggest that it will become more difficult to maintain the momentum gained in the past; this follows from the fact that the more obvious development opportunities have already been exploited. Capital/output ratios have been rising, savings have shown some signs of leveling off and the increasing resource gap has started to put pressure on the balance of payments.

The basic development strategy is to induce the economy to operate more efficiently, both in utilizing fewer inputs of scarce resources (particularly capital and skilled labor) and in generating greater benefits. This requires both a change in the structure of growth, with less investment in infrastructure and greater investment in agriculture and domestic, resource-based industries, and a change in the process of growth in all sectors, particularly through changes in the prices of factors of production.

Future IFI Lending Activities

In the future the World Bank intends to give even greater emphasis to agriculture and other directly productive sectors, particularly to projects which are likely to bring more immediate benefits to a large number of people and will, as much as possible, increase Kenya's foreign exchange earnings. The Bank's Agricultural Survey mission identified a number of projects that are currently being prepared. For example, a new forestry project to expand industrial pine plantations will be ready for financing soon. Other projects currently being worked on include an integrated crop production project, an irrigation project in the lower Tana River basin, and a project to augment sugar production. Yet, while the major emphasis will continue to be on directly productive agriculture, there is a need for complementary development of rural infrastructure; consequently, the Bank will finance projects for

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rural water supply systems and access roads. A wildlife and tourism project is also being developed for new tourist circuits and to help spread the benefits to a larger number of rural communities. Concurrently, substantial investment continues to be required to keep public services abreast of economic growth. Consequently, the Bank is likely to become involved in a number of projects, for example, an oil pipeline project to move the increasing volumes of petroleum products from Mombasa to Nairobi and a power project to keep pace with the rapidly growing demand for electricity. It is expected that in view of the high capital cost of some of these projects, a significant amount of bilateral financing will be associated with Bank financing.

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STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE
COMMERCE, CONSUMER AND
MONETARY AFFAIRS SUBCOMMITTEE
OF THE
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
WASHINGTON, D.C.
WEDNESDAY, MAY 14, 1975

Mr. Chairman and Members of this Subcommittee:

I am pleased to be here today as you begin your oversight hearings into the operations of the Internal Revenue Service. As you requested, I shall describe the general organization and management of the Treasury Department as it pertains to the Internal Revenue Service. I shall then answer some of the specific questions set forth in your letter of May 7, which we received last Thursday. As your staff has been advised, some of your questions require information that is not readily available in a convenient and responsive form. We shall submit further material for the record in response to those questions not fully answered today.

Legal Basis for Organizational Structure

The Internal Revenue Code provides that the administration and enforcement of that Code is to be performed by or under the supervision of the Secretary of the Treasury. This is consistent with the provisions of Reorganization Plan No. 26 of 1950, which, with certain exceptions not relevant here, transferred all functions of all other officers, agencies and employees of the Department of the Treasury to the Secretary and authorized the Secretary to delegate authority to other Treasury officers. These delegations to Treasury officials create agency relationships, giving each of the designated officials authority to take final actions necessary to carry out his duties as assigned, subject of course to the right of the Secretary, as principal, to review, direct or modify the delegations, as may be appropriate.

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Reorganization Plan No. 1 of 1952 abolished most of the Presidentially appointed officers of the Internal Revenue Service. Section 7802 of the Internal Revenue Code establishes the office of Commissioner of Internal Revenue and provides for the appointment of the Commissioner by the President with the advice and consent of the Senate and provides that the Commissioner shall have "such duties and powers as may be prescribed by the Secretary." The Code also designates an Assistant General Counsel of the Treasury Department as a Presidential appointee to be the Chief Counsel for the Internal Revenue Service and, as such, the chief law officer for the IRS, performing such duties as may be prescribed by the Secretary. The only other officer at the IRS specifically referred to in the Internal Revenue Code is an Assistant Commissioner who supervises and directs the Office of Employee Plans and Exempt Organizations, established by the Employee Retirement Income Security Act of 1974, Public Law 93-406.

Treasury Department Order No. 150-2 was issued on May 19, 1952, delegating to the Commissioner of Internal Revenue general authority over "the functions of all officers, employees, and agencies of the Bureau of Internal Revenue, except the functions of the Assistant General Counsel serving as Chief Counsel for the Bureau of Internal Revenue." Since 1952 there have been 32 Treasury Orders making delegations of specific authority to the Commissioner of Internal Revenue, many of them related to such activities as IRS participation in the recent Economic Stabilization Program in support of the Cost of Living Council. Other Treasury Orders have transferred some authority and responsibility that had been placed in the IRS to other Treasury units, such as the order establishing the Bureau of Alcohol, Tobacco and Firearms as a separate Treasury bureau independent of the IRS and the order transferring to ATF responsibility for the enforcement of wagering tax laws.

Also, there have been other general delegations of administrative authority by the Secretary or the Assistant Secretary (Administration) to all heads of bureaus within Treasury, including the Commissioner of IRS. These delegations are consistent with Treasury's basic management policy of placing authority within the Department at the lowest practical level in order to expedite effective decision making in the wide variety of programs and functions performed by Treasury.

The operations of the Treasury Department are carried on by eleven bureaus, of which the Internal Revenue Service is the largest. Most of the bureaus report to the Secretary through an Assistant Secretary and an Under Secretary, but the Commissioner of Internal Revenue reports directly to the Deputy Secretary. Prior to the establishment of the Deputy Secretary's position in 1972, he reported to the Under Secretary. A current Departmental organization chart is attached as Exhibit 1.

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Supervision of the IRS

The Secretary and Deputy Secretary are responsible for over-all supervision of the management of the Internal Revenue Service. The Secretary generally functions as the chief executive officer of the Department and the Deputy Secretary as chief operating officer. As a result, while the Secretary maintains his final responsibility, a considerable degree of the direct supervision of IRS is carried out by the Deputy Secretary. The supervision is accomplished generally through review of such basic management documents as budget requests, management by objective programs, review of basis policies and directions, and through discussion and resolution of specific management problems that develop from time to time.

The Commissioner often attends my morning staff meetings and sometimes consults privately with the Deputy Secretary following those meetings. Both the Commissioner and Chief Counsel or their representatives usually attend the larger Treasury staff meetings held each Friday morning. The Deputy Secretary also interviews superg de appointees in the IRS as in the rest of the Department. I believe this contact and degree of direct supervision is consistent with the role of the Commissioner of IRS and the extent of other responsibilities of both the Commissioner and the Deputy Secretary. Of course, I, as the Secretary, also have occasional meetings to review management policies of the IRS.

Tax Policy and Tax Administration

You have asked about the distinction between tax policy and tax administration and the responsibility for decisions in those areas.

As Secretary of the Treasury, I am the chief financial officer of the Federal government. The President has also designated me as principal economic spokesman for the Administration. I also have the primary responsibility for formulating and implementing the Administration's tax policy as well as for administering and enforcing the Internal Revenue Code.

The development and implementation of the Administration's substantive tax law and policy, including legislative proposals, is the responsibility of the Office of Tax Policy which, since 1961, has been under the direction of an Assistant Secretary for Tax Policy who reports directly to the Deputy Secretary and Secretary. The staff, under the direction of the Assistant Secretary, is responsible for developing and analyzing the economic, statistical, legal and policy material necessary for the preparation of legislative proposals and for the implementation of a sound tax policy.

The Commissioner of Internal Revenue is responsible for the administration and enforcement of the tax laws enacted by Congress. The Secretary of the Treasury has delegated broad authority to the Commissioner to determine tax liability, collect the taxes, and make final decisions on individual cases. In carrying out the important functions of determining and collecting taxes owing to the United States and supervising the enforcement of tax laws, the Commissioner has a staff of approximately 80,000 employees to assist in this important job.

As an example, most provisions of the Code require interpretation in regulations or by rulings published in the weekly Internal Revenue Bulletin issued for the guidance of taxpayers as well as IRS staff. The initial draft of regulations is prepared by the Chief Counsel of IRS. This is consistent with the authority delegated to the Service to administer the tax laws enacted by the Congress.

We all know, however, that statutes often require administrators to make choices about the manner of their implementation -- sometimes because Congress intended to leave substantial choices to the Treasury and sometimes because the necessity for choice was not apparent when the statute was drafted. Where such choices involve important matters, we try to consider them in the course of promulgating regulations or issuing published rulings. Those choices are made in light of the intent of Congress as revealed by the statute and its legislative history. The factors considered in developing regulations include the ease of enforcement of the alternatives as well as the consistency of approach and rationale essential to the integrity of our tax system.

Likewise, published rulings on questions that are not clearly answered by existing statutes, regulations or judicial decisions can operate to shape our tax system by developing a series of precedents in a given direction. As with regulations, problems of administration, audit or enforcement must be taken into account in issuing rulings. Although most such rulings originate at the IRS, they are reviewed by the Office of Tax Policy before they are published.

Issues of regulatory or ruling approach are not always susceptible of easy labeling as "tax policy" or "tax administration." And their resolution requires cooperation and exchange of information, ideas and opinions between the Tax Policy staff and the staff of the IRS, with the result that regulations and rulings which are to be published are a joint effort between the two offices.

In summary, therefore ultimate responsibility for formulating and implementing the Administration's tax policy, as well as for administering and enforcing the Internal Revenue Code, rests with me as the Secretary of the Treasury. While I rely heavily on the

Deputy Secretary to oversee and give policy guidance in this area, and upon the Commissioner and Assistant Secretary for Tax Policy to bring to my attention those tax matters which they believe require my personal participation.

Responsibility of Other Principal Treasury Officials

I shall now return to a more general description of the Treasury organizational structure related to the Internal Revenue Service.

The Assistant Secretary for Legislative Affairs has overall responsibility for assisting all officers of the Treasury Department in maintaining appropriate liaison with the Congress and its various committees and members. The legislative liaison office does not have substantive responsibility for legislation proposed by Treasury or affecting Treasury's responsibilities. It does, however, assist in maintaining avenues of communication between the Department and the Congress, answering inquiries from Congress, and in articulating the Department's views to Congress and its members. IRS has direct responsibilities to oversight committees and other committees of Congress and conducts its own liaison on a continuing basis with various Congressional offices. The Office of the Assistant Secretary is, of course, available to assist the IRS on request.

The Assistant Secretary for Administration is responsible for Department-wide administrative policies, programs and systems for the entire Treasury Department. The Assistant Secretary (Administration) is the Secretary's designated representative with Federal regulatory agencies, such as OMB, CSC, GSA, GAO, EPA, etc., and is delegated authority to develop and install programs to implement government-wide rules and regulations within Treasury. His various administrative staffs provide guidance and assistance to each of the Bureaus, including the IRS, for budgeting, internal audit, personnel administration, ADP resource utilization, space and facilities management, and similar administrative service programs. A detailed description of the administrative functions and the relationship with the IRS in connection with these functions is set forth in Exhibit 2.

The Assistant Secretary for Enforcement, Operations, and Tariff Affairs advises the Secretary and Deputy Secretary with respect to law enforcement operations of the Treasury Department. He also has direct line responsibility for the operations of the Customs Service, the Bureau of Alcohol, Tobacco and Firearms and the Secret Service, and for supervising their cooperation with the law enforcement activities of the IRS. He is also responsible for the operation of the Consolidated Federal Law Enforcement Training Center, which is available for the training of IRS criminal law enforcement agents as well as others.

The General Counsel is the principal legal adviser to the Secretary and is responsible for the operation of the Legal Division of Treasury. The Chief Counsel for the IRS is an Assistant General Counsel of the Treasury and reports to the General Counsel. The General Counsel's office does not review the substantive legal advice given to the Commissioner by the Chief Counsel's office in the interpretation and administration of the tax laws. The Tax Legislative Counsel, providing legal advice and assistance to the Office of Tax Policy, is also an Assistant General Counsel, and here, too, there is minimal participation by the General Counsel in the substantive work of that office. Of course, the General Counsel is always available to consult with the Secretary and the Deputy Secretary on tax matters requiring their personal attention.

Mission and Activities of the IRS

I shall now turn to a description of the mission and the activities of the Internal Revenue Service.

The Mission of the Internal Revenue Service as stated at 1111.1 of the Internal Revenue Manual is to:

> "...Encourage and achieve the highest possible degree of voluntary compliance with the tax laws and regulations and to maintain the highest degree of public confidence in the integrity and efficiency of the Service. This includes communicating the requirements of the law to the public, determining the extent of compliance and causes of noncompliance and doing all things needful to a proper enforcement of the law."

As any statement of mission, this one is obviously very general. But it does provide an insight into the Service's view of the role it plays in the over-all operation of the tax system. The IRS is currently revising this statement to place more emphasis on the necessity for the Service, by its actions in administering the tax laws, to instill in the taxpaying public the assurance that the tax system is operating properly. As revised, the mission will probably be described as follows:

> The mission of the Service is to encourage and achieve the highest possible degree of voluntary compliance with the tax laws and regulations and to conduct itself so as to warrant the highest degree of public confidence in its integrity and efficiency. The Service should advise the public of its rights and responsibilities, determine the extent of compliance and the causes of non-compliance, and do all things needed for proper administration and enforcement of the tax laws.

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Although these changes may appear to be subtle, they are important both to the way IRS personnel view themselves and to the way the taxpaying public views the Service.

Non-Tax Functions of the IRS

I understand that the Subcommittee is particularly interested in learning of the extent to which IRS personnel are engaged in non-tax functions or investigations. In general, activities of this nature take up a relatively small portion of the Service's total resources. However, even small diversions, individually or collectively, can have a serious impact on the effectiveness of the Service in performing its assigned job of enforcing and administering the tax laws.

In the recent past, the major diversions of IRS resources have been in the area of the Economic Stabilization Program and the Federal Energy programs. As set forth in Exhibit 3, the IRS supplied a total of 1,822 man-years in fiscal year 1972 at a cost of slightly less than $31 million, and 2,714 and 2,443 man-years for fiscal 1973 and 1974, respectively. The latter two fiscal years did not result in direct fiscal cost to IRS because of reimbursements from funds appropriated for other agencies.

In addition to these major programs, IRS also has supplied a wide variety of services from time to time to other Treasury components and to other agencies. For example, the Internal Security Division of the Office of Assistant Commissioner (Inspection) undertakes character and conduct investigations of prospective employees and special inquiries for the seven Treasury bureaus and offices which do not have investigative capabilities of their own. Until recently, these investigations were done on a non-reimbursable basis, but presently IRS is being reimbursed at an approximate figure of $500 per investigation.

The IRS from time to time has supplied personnel to assist in program such as the Sky Marshal program, the protection of foreign dignitaries, the protection of major Presidential candidates, and similar programs when needed. In those instances, the assigned personnel have been placed under the supervision and control of the agency to which they were assigned.

The IRS also supplies services such as the following, frequently, but not always, on a reimbursable basis:

- --Auditing of expenditures from various funds
- --Clerical, legal, and management assistance to the Presidential Clemency Board
- --Data processing services to various offices

--Specialized legal assistance to Treasury's Bureau of Alcohol, Tobacco and Firearms, Bureau of the Mint, Bureau of Engraving and Printing, and Director of Practice
--Payroll service to several different offices
--Public Affairs assistance to the Office of the Secretary
--Training assistance to the Consolidated Federal Law Enforcement Training Center

In addition to these general services provided to Treasury offices, IRS also provides a variety of statistical materials and field survey analyses to assist in the formulation of new tax laws and the evaluation of the impact of existing tax laws. Much of this information is derived from the regular studies of statistics of income from individual, corporate, business and estate tax returns, as well as special studies.

IRS also provides services to other agencies and to foreign governments. For example, in fiscal year 1974, the IRS spent $1,435,000 for manpower on foreign tax assistance for which it received reimbursement of $1,215,000 from AID. Under this program, through its Tax Administration Advisory Service, IRS provides technical assistance in tax administration to developing countries which ask for such help.

Consolidated Federal Law Enforcement Training Center

You have also asked about the Consolidated Federal Law Enforcement Training Center. The Center was established by Treasury Department Order No. 217 on March 2, 1970, pursuant to the Government Employees' Training Act, 5 U.S. Code, Section 4103. It was established as an interagency training facility to meet a recognized and demonstrated need within the Federal Government for a center to provide all participating agencies with adequate and modern facilities for basic, advanced and specialized training of their law enforcement personnel. The Center provides a variety of training programs including basic training for police and criminal investigators, firearms training, law enforcement driver training, law enforcement photography, and other specialized training programs. We have prepared a summary of the Center's programs and it is attached as Exhibit 4. The staff of the Center currently includes as instructors five agents from the IRS Intelligence Division and two from the Inspection Division.

The Law Enforcement Training Center operated with an appropriation for salaries and expenses in fiscal year '74 of $2,250,000. The proposed authorized level for fiscal year '75 is $3,115,000, with a currently pending appropriation request for fiscal year '76 of $3,210,000. The Public Works Committees of the House and Senate currently have under review a proposal to move the Center to the old Glynco Naval Station in Georgia.

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If a decision is made to move the Center to Glynco, substantial funds otherwise needed for construction of facilities at Beltsville, Maryland, can be saved. However, it is expected that additional funds will be required, both for non-recurring equipment and transfer costs, as well as for the additional cost of operating the Glynco facility. Overall, the Government would realize a net savings by making this transfer.

Former Treasury Technical Investigative Aids School

You have also asked about the former Treasury Technical Investigative Aids School. That school was convened for the last time in March and April of 1965. The only courses taught at that school that are included in the curriculum of the Consolidated Federal Law Enforcement Training Center are classes in constitutional law and basic photography. I am advised that the other classes were of a technical electronic nature which are not now offered by any Treasury training school. We have attached as Exhibit 5 and submit for the record an outline of the curriculum of the Technical Investigative Aids School as it existed in 1965.

Organized Crime Strike Force

You have asked a series of detailed questions concerning the operation of the organized crime Strike Forces. By Executive Order No. 11396 of February 7, 1968, the President formally designated the Attorney General to coordinate the criminal law enforcement activities and crime prevention programs of all Federal departments and agencies. He requested the heads of Federal agencies having investigative responsibility to assign investigative personnel to work with the Justice attorneys in a coordinated law enforcement effort or "Strike Force." By Executive Order 11534 dated June 4, 1970, the President established the President established the National Council on Organized Crime. All Strike Forces formed subsequent to that date were established with the approval of the National Council.

The IRS has played a major role in the planning and operation of the Strike Forces from the beginning of the program. We are gathering information to respond to your detailed questions concerning Strike Forces and will provide that information at a later time.

IRS Criminal Law Enforcement

The criminal enforcement activities of the Treasury Department have one common characteristic. They are all designed to provide the maximum incentive for voluntary compliance with the laws and regulations governing Treasury's revenue-raising or other civil regulatory functions. This is true whether the revenues result from income taxes, customs duties, alcohol, tobacco or other excise taxes, or the regulation of commerce in firearms or monetary instruments. The application of proper and consistent policies to enforcement programs arising throughout Treasury bureaus is therefore highly desirable.

In general, the Internal Revenue Service's criminal law enforcement activities are carried out under the direction of the Assistant Commissioner (Compliance) through the Intelligence Division, and the Assistant Commissioner (Inspection) through the Internal Security Division. The Intelligence Division is primarily concerned with the investigation of possible criminal offenses under the Internal Revenue laws. The Internal Security Division is primarily concerned with the investigation of possible criminal activities by or against IRS employees or against IRS facilities. Attached as Exhibit 6 is a listing of the various statutory provisions for which IRS has or shares enforcement responsibility. Also attached, as Exhibit 7, is a chart showing the amounts of money and manpower allocated to the different IRS enforcement functions for fiscal years 1970 through the proposal for fiscal year 1976.

In the situation that has become known as Operation Leprechaun, there have been allegations that IRS Intelligence Division personnel engaged in investigations outside the areas of their responsibilities, and that they were possibly involved in illegal activities. The Inspection Service of IRS, which is an organization completely separate from Intelligence, is currently investigating these allegations. We have asked the Attorney General for assistance in concluding this investigation. The Justice Department has assigned an experienced criminal lawyer to review the evidence that is gathered and to consult with the Inspection Service on the progress of the investigation. They have advised us that the FBI will be asked to participate in some aspects of the investigation. The IRS is working closely with the Justice Department to be sure that the allegations of wrongdoing are thoroughly investigated and that if evidence of criminal activity is developed, appropriate prosecutions are undertaken. Meanwhile, we have taken appropriate steps to prevent any repetition of the alleged improper conduct.

Compliance Activities

In addition to its normal activities, the Intelligence Division also undertakes special projects when areas of serious non-compliance are identified. For example, a recent project dealt with the investigation of possible tax evasion by public officials involved in Federal Housing Authority programs, including FHA appraisers and inspectors as well as contractors. A summary of several other recent projects is attached as Exhibit 8.

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The Intelligence Division represents, of course, only one part of the IRS effort to achieve compliance with the tax laws. Of much more significance to the average taxpayer is the Audit Division which is responsible for the examination of tax returns to determine the accuracy of the information they contain. The determination of which returns should be examined and the manpower that should be allocated to the various kinds of returns to be examined is a very important function of the over-all management of the IRS. Attached as Exhibit 9 is a chart showing the resources allocated to the various examination programs for the fiscal years 1972 through 1974.

Access to IRS Records by the GAO and Various Congressional Committees

Your letter asked several questions concerning access to IRS records by the General Accounting Office and various committees of Congress.

GAO Audits of IRS

The Internal Revenue Code places responsibility for Congressional oversight of the administration of the Code with the Joint Committee on Internal Revenue Taxation. That Committee and its staff review the activities of the IRS in the enforcement of the tax laws. The General Accounting Office has, for a number of years, been regularly auditing the routine operations and records of the IRS in the same manner it does other agencies of the Executive Branch. Thus, the travel expenses, equipment purchases and other financial transactions and accounting by IRS are subject to regular GAO review. A particularly significant review that is currently in progress relates to the IRS efforts to develop a new Tax Administration System (TAS). IRS will supply GAO with requests for proposals, the cost/benefit analysis, workload statistics, and similar information about the expected new ADP system. IRS anticipates receiving significant benefits from discussions with GAO representatives on the problems in this area. This represents a departure from the views of my predecessors, and my own views as Secretary of the Treasury that programs designed and implemented by an Executive agency should not be subject to GAO scrutiny until they have been in operation for a reasonable period of time. In this instance, GAO participation in the design of the program was invited, and the cooperation of that Office is appreciated.

GAO Studies on Behalf of the Joint Committee on Internal Revenue Taxation

The Internal Revenue Code provides that the decisions of the Secretary or his delegate in determining matters under the Internal Revenue Code are not subject to review by any other officer of the Government. Therefore, Treasury has consistently taken the position that the only time that GAO is entitled to review tax returns is when it is acting on behalf of a Congressional committee having the right to such access, such as the Joint Committee on Internal Revenue Taxation.

For example, starting in early 1971, GAO undertook on behalf of the Joint Committee a nationwide two-year study of the IRS's effectiveness in collecting past due accounts, the equities of tax collection, the policies and practices concerning uncollectible accounts and offers in compromise, and a study of what changes, if any, were needed to reduce delinquent accounts. Although the GAO findings and conclusions were generally favorable to IRS, the GAO offered criticisms that IRS felt were appropriate. Following that study, GAO is now in the process of reviewing selected collection actions, such as jeopardy assessments, seizures, and property disposals among others.

GAO is also currently reviewing the policies and procedures established by IRS in connection with its Taxpayer Service Program. GAO has been reviewing the Taxpayer Service functions both here at the National Office and in six of the IRS Districts. IRS has received, reviewed and commented on Part I of the draft report concerning assessment of the telephone assistance provided to taxpayers. This draft report is a concise evaluation of the system and it has proven helpful to the Service in developing and improving its service to taxpayers.

GAO is presently preparing in draft Part II of their report relating to the IRS over-all effort to provide assistance to taxpayers. This part of the report will deal with the walk-in and correspondence area as well as the over-all efforts of the Service to provide assistance to taxpayers.

Other studies currently underway by GAO on behalf of the Joint Committee include a review of IRS audit and appeals practices and procedures; a review of withholding on agricultural employees; a review of repetitive audits; a survey of waivers of the statutory period for assessment; a review of the non-filing of employment tax returns by exempt organizations.

Access to Tax Returns by Congressional Committees

The effective and equitable operation of our voluntary self-assessment tax system depends on information supplied by taxpayers about their own income. Under our tax laws, taxpayers are required to disclose to the Government the most intimate details of their financial affairs. The maintenance of our self-assessment tax system requires that the confidentiality of tax returns be respected to the maximum extent feasible. As discussed later in this statement, we submitted to Congress last year a proposal to assure that all tax returns and return information collected by the IRS would be protected from disclosure taken the position that the only time that GAO is entitled to review tax returns is when it is acting on behalf of a Congressional committee having the right to such access, such as the Joint Committee on Internal Revenue Taxation.

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except within specific guidelines, carefully and narrowly established by Congress.

Generally, Congressional committee access to tax returns is governed by the provisions of section 6103 of the Internal Revenue Code. This section accords access to tax returns to the House Ways and Means Committee, the Senate Finance Committee, the Joint Committee on Internal Revenue Taxation, and to select committees of the House or Senate or select joint committees when specifically authorized by an appropriate resolution. Other Congressional committees may obtain access to tax returns only pursuant to a specific Executive Order and in accordance with procedures established by regulations implementing section 6103.

Treasury has always recognized the legitimate interest of the Congress in having access to tax returns and return information. The rules that have developed regulating such access are only those that are deemed necessary to protect the confidentiality of tax returns in order to preserve the viability of our self-assessment tax system.

The IRS regulations provide that access to tax returns by an authorized committee is to be granted only upon a written request from the Chairman of the committee or a duly authorized subcommittee, specifying the names and addresses of the taxpayers whose returns are to be inspected as well as the taxable periods covered by the returns. The inspection of returns is limited to committee or subcommittee members or such examiners or agents as are designated in the written request for information.

The House Committee on Government Operations and its duly authorized subcommittees have been provided access to tax returns in the past. The most recent Executive Order granting access to the Government Operations Committee was issued March 14, 1972, and covered access to income, excess profits, estate, and gift tax returns for the years 1947 to 1972, inclusive. That Executive Order applied only to the 92nd Congress and, so far as we are aware, the House Committee on Government Operations has not requested the issuance of an Executive Order for access to tax returns in the 93rd Congress or, to this time, in the 94th Congress.

Other access to individual tax returns is also governed by section 6103 of the Internal Revenue Code and by regulations and Executive Orders implementing section 6103. Upon the request of a State governor, State tax officials are specifically accorded access to individual tax returns by section 6103(c) of the Code. Other agencies of the Executive Branch may currently obtain tax returns upon specified conditions pursuant to regulations adopted under section 6103, and access to tax returns by White House officials is governed by Executive Order 11805, which was issued on September 20, 1974. Under that Executive Order, requests for White House access to tax returns must be signed by the President personally and must designate by name who among a limited group

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In determining under section 162(e)(2) of the Code the deductibility of advertising expenses as business expenses, examiners use regular auditing techniques. These would include reviewing invoices and other documentary evidence, including the text of advertisements to determine the nature and purpose of the expenditures. Also, audit plans for all large case examinations provide for close scrutiny of advertising expenses. If it were determined that the advertisements were an attempt to influence the public with respect to the desirability or undesirability of proposed legislation, the Service would disallow such expenses.

While the IRS does not have specific guidelines with regard to advertising expenses under section 162(e)(2) of the Code, we do have guidelines which require compliance checks for methods used to deduct political contributions. These guidelines alert examiners to the possible methods used to disguise unallowable expenses as deductible business expenses under categories such as advertising, legal fees, and printing. The IRS does not maintain statistical information on the extent to which advertising expenses have been disallowed due to section 162(e)(2) of the Code.

Corporate Political Contributions

Because of recent allegations and disclosures that officers and controlling shareholders of various corporations had caused corporate funds to be used in political campaigns, IRS has undertaken a strong examination effort in this general area. The possible violations exist in various situations such as, for example, paying bonuses to executives who use the payment to make political contributions, letting political parties use corporate property or personnel, and padding expense accounts with the excess used for political purposes. Other schemes involve the use of payments from pension plans, pension trust funds and tax-exempt organizations. In addition, some individuals may not have filed accurate and complete gift tax returns where necessary.

The IRS effort in this area, which has been carried out on a nationwide basis through its numerous field offices, is illustrated in the attached Exhibits 11, 12, and 13, which are instructions and information to assist IRS field personnel in examining different returns to make certain that all possible violations of the tax laws are investigated.

Conclusion

Mr. Chairman, for the Treasury Department and for the Internal Revenue Service in particular, there is no higher public trust than to administer a fair and honest system of taxation. Taxes are a necessary part of a Democratic society -- they are as Justice Holmes once said, "The price we pay for a civilized society." Just as the government has an obligation not to claim more money in taxation than is necessary, it is important that our laws distribute the tax burden equitably among the American people. And it is imperative that the tax laws be administered with integrity and in a fair, even-handed manner so that every taxpayer will have confidence that he or she, as well as each of his neighbors, is paying a fair share -- no more and no less than the law demands.

Since the days that the tax system was first established in this country, public questions have arisen about its administration. Events of recent years have raised those concerns once again.

We recognize that public doubts about our system of taxation have not yet been erased. Those doubts arise partly from the isolated but highly publicized reports of alleged abuses of the system -- whether or not the allegations are well-founded. It is our hope that the initiatives we take, along with cooperative efforts between the Executive and Legislative branches, will help to reduce those concerns. Those doubts also arise from basic questions about the fairness of the tax burden, as opposed to the way that the laws are administered; we look forward to working with the Congress in considering tax reforms that would address those concerns. Finally, we should recognize that restoration of public trust in all major institutions is a goal we must all work together to achieve.

In working to allay public doubts and restore public trust and confidence let us always bear two thoughts in mind:

First, even though weaknesses of our tax system easily become the focus of considerable attention, there remains within our body politic an enormous respect for our system of taxation. Within a Democracy a system of taxation can be effective only if the vast majority of citizens willingly comply with the tax laws. Our nation could not, nor would we ever want to try to assemble a police force large enough to deal with widespread tax evasion. Fortunately, the fact is that a very high percentage of Americans conscientiously pay their taxes, year in and year out, because they respect our system and they love their country. The incidence of tax evasion here is notably lower than in many other industrialized nations. As we seek to improve the administration of our laws, we should thus bear in mind that we begin with a system that is already working with a very high degree of effectiveness.

Secondly, let us also remember that the job of improving the administration of our tax laws will never be completed -- not by this Administration, not by this Congress, and not by any one of our successors. Our tax system must constantly evolve to meet an ever-changing and complex environment. We are dealing with

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the personal lives of over 200 million people. Thus, it will always be the duty of citizens who are entrusted with public office -- men and women like those of us here in this chamber -- to be constantly vigilant in protecting and improving our tax system. It is in this spirit that we welcome your inquiry today.

Thank you.

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ORGANIZATION OF THE DEPARTMENT OF THE TREASURY

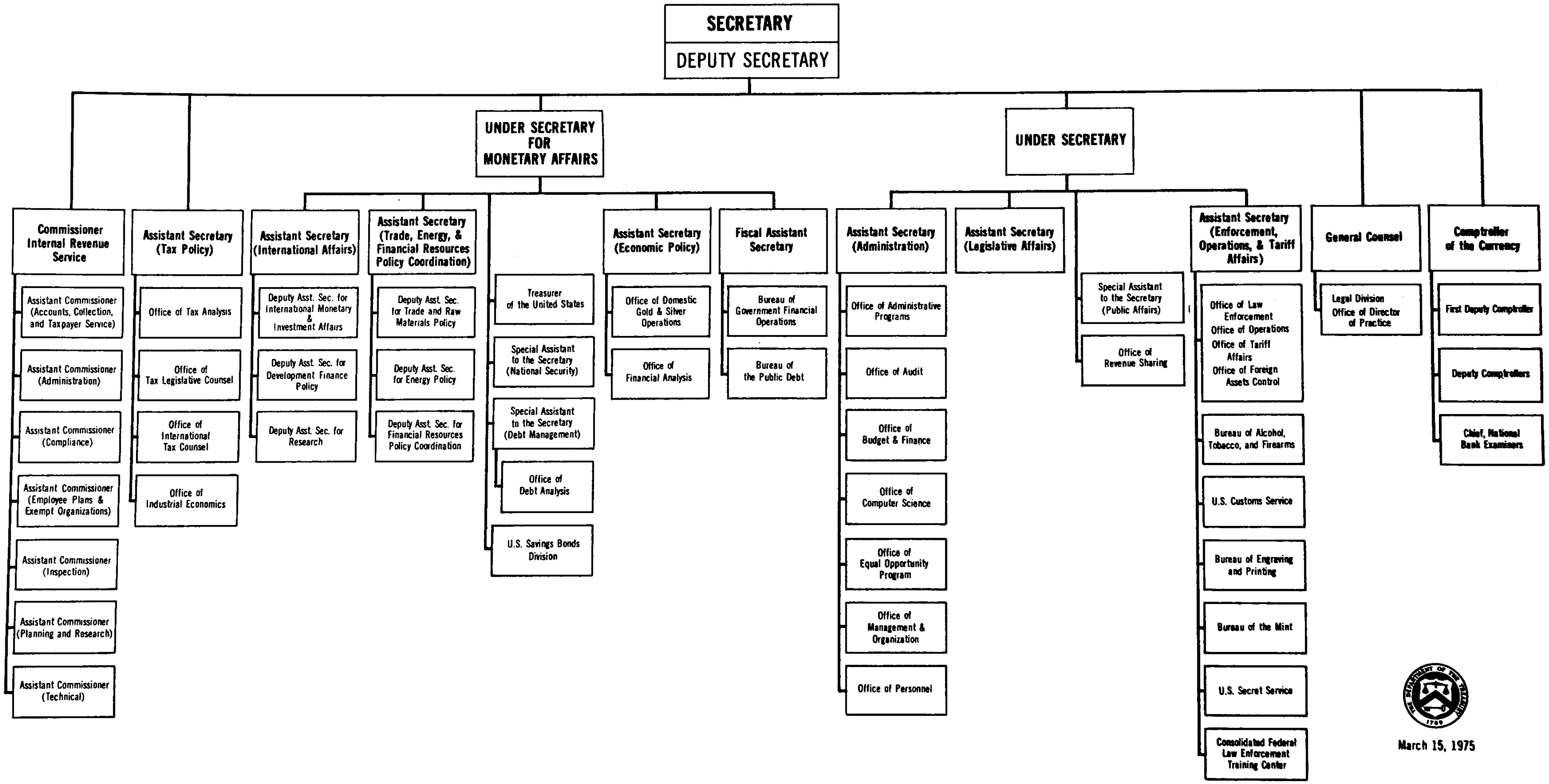

EXHIBIT 1

OFFICE OF ADMINISTRATIVE PROGRAMS

In the facilities area, the Office of the Secretary provides the program and policy guidelines as well as the Departmental regulatory material which apply to Internal Revenue Service's activities as they do to other Treasury bureaus and offices. These cover such subjects as space planning and utilization, printing and publications, procurement and contracting, radio and telecommunications, records management, energy conservation, occupational health, safety and fire prevention, library administration, utilization of personal property and equipment, including transfers of excess and disposal of surplus, and travel and relocation allowances. These guidelines can be either applications, interpretations, or simply prescriptions of General Service Administration, Office of Management and Budget, Government Printing Office and Office of Telecommunications policy directives, as well as specific Treasury-initiated programs and policies.

In addition, Internal Revenue Service is provided with technical advice and assistance in these areas by Office of the Secretary personnel through consultation, Departmental meetings and conferences, training courses, and day-to-day personal and telephone contacts. Examples include providing consolidation of the procurement and contracting for Internal Revenue Service's automotive needs with the needs of other Treasury Bureaus so as to secure favorable price advantages; working closely with Internal

Revenue Service personnel and the Office of Computer Science in procurement and contracting for Automatic Data Processing and related communications equipment; representing Internal Revenue Service with General Services Administration on the acquisition of space in the Washington, D.C. metropolitan area; and assistance in proposing changes in mileage and relocation allowances.

OFFICE OF AUDIT

Under Administrative Circular No. 224, the Department's audit policy, the IRS internal audit staff is provided the same sort of Office of the Secretary overview and related services by the Office of Audit as other Bureau staffs in Treasury's decentralized audit system. This includes periodic appraisals of Bureau audit systems.

The Office of Audit keeps all Bureaus, including IRS, informed on new developments in auditing, General Accounting Office reports, and other matters of mutual interest. At the end of each year, Treasury Bureaus submit reports on internal audit activities for use in an annual report to the Secretary, and these reports are also used as a means of providing departmental overview. All Bureaus, including IRS, are recipients of this day-to-day type of contact. IRS has actively participated in periodic meetings of Treasury internal audit officials.

The Office of Audit was recently assigned the responsibility for providing Office of the Secretary supervision to the Department's administrative accounting systems. In respect to this responsibility, the Office of Audit relationship with IRS has been primarily one of providing advice on questions raised by their accounting staff. In the future, assistance will be expanded to include more detailed consultation on accounting problems.

OFFICE OF BUDGET AND FINANCE

Budget assistance is provided the Internal Revenue Service on a year-round basis. This assistance includes review of the initial estimate of need for the budget year and assistance with the revised estimates for submission to the Office of Management and Budget and the Congress, based on program expansion and the President's determination of a total funding level for the Department in the context of national priorities.

The Internal Revenue Service's budgetary requirements are considered an integral part of the Department's balanced program for managing the nation's finances, which involves the collection of revenue, enforcement of taxing and tariff regulations, and the servicing of the public debt. In its role as central Budget Office, the Office of Budget and Finance is able to assist the Secretary in establishing the necessary uniformity and balance. The Office of Budget and Finance provides the centralized coordination necessary to meet the technical requirements of Office of Management and Budget and the Congress in the preparation of budget schedules and justification material, in the presentation of the proposed budget program which ultimately results in the appropriation of funds, and, finally, in the preparation and submission of monthly and quarterly reports on the utilization of the appropriated funds.

From time to time, the Office of Management and Budget, the Congress, or both, find it necessary to impose new or additional restrictions on the administrative activities of Federal agencies, such as employment or spending levels, travel limitations, directives pertaining to the transfer of work to the private sector, etc. These directives are received and interpreted by the Office of Budget and Finance, and standard instructions to effect uniform compliance are issued to the Internal Revenue Service and to other Treasury Bureaus and offices. Conversely, when it is determined that a new regulation or restriction will result in an unusual hardship, or will seriously curtail the ability of a Treasury unit such as the Internal Revenue Service to discharge its statutory responsibilities, the Office of Budget and Finance will assist that unit or units in the preparation and presentation of an appeal for exception, which gives the request the added support of a Cabinet level official.

Technical assistance and support in the formulation and preparation of requests for budget amendments and supplemental appropriations are also among the budget help rendered. Not infrequently the budget assistance provided one Treasury unit has a direct effect on other Treasury units. For example, the recent decision to rebate a portion of the 1974 income tax payments affected both Internal Revenue Service and the Bureau of Government Financial Operations which was the Bureau responsible for the preparation, issuance and payment of those checks.

OFFICE OF COMPUTER SCIENCE

The Office of Computer Science works with the Internal Revenue Service, as it does with all Bureaus of the Department, on the use and management of computers and related resources. Activities include the review of long-range automatic data processing (ADP) plans as well as specific requests for acquisition approval and procurement of ADP equipment, software, services, and related resources. Illustrative is the joint effort involved in the review and justification of the new Tax Administration System (TAS) which is being proposed to replace the existing ADP master file system used to process tax returns and maintain taxpayer accounts.

The extensive work of the IRS and the Office of Computer Science on the TAS project has been under way for over a year, and will continue. These cooperative efforts take three forms -- technical, managerial, and representational.

Members of the Office of Computer Science staff have participated actively in the validation of the technical computer software and hardware specifications for TAS. Efforts include work with other Government, private industry and university experts in assuring that these specifications are obtainable, cost effective and non-restrictive.

Office of Computer Science staff have assisted senior IRS management in appraising relative courses of action by assessing both risks and opportunities of various managerial options.

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Considerable advice and assistance also have been given to the analysis of the costs and benefits of Tax Administration System.

Finally, Office of Computer Science staff have participated with Internal Revenue Service senior staff at meetings on the Tax Administration System project which have been held with the Office of Management and Budget, the Office of Telecommunications Policy, the General Accounting Office, and the General Services Administration.

OFFICE OF EQUAL OPPORTUNITY PROGRAM

The Office of Equal Opportunity Program is an organizational unit of the Office of the Assistant Secretary for Administration which has staff responsibility for Equal Employment Opportunity Programs throughout the Department. In carrying out this responsibility it provides policy guidance and staff assistance to the Internal Revenue Service and other Treasury Bureaus in the conduct of their equal employment programs. This includes assistance in the development of Affirmative Action Plans to promote the equal employment opportunities for women and minorities. It also receives and adjudicates the investigation of complaints alleging discrimination because of race, color, religion, sex, national origin or age.

The actual administration of the Equal Employment Opportunity Program within IRS is delegated to the Commissioner of the Internal Revenue Service. Within IRS, the Equal Employment Opportunity Officer is responsible to the Commissioner for the administration of some 78 Affirmative Action Plans. It is his responsibility, in an advisory capacity, to assure that these Affirmative Action Plans meet departmental specifications and that affirmative action is taken in accordance with Civil Service Commission rules and regulations. He is also responsible for processing complaints of discrimination that may be initiated by IRS employees.

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IRS has been particularly active in Equal Employment Opportunity and has one of the better programs in the Department. A key official of IRS has played a lead role in organizing and promoting the Federal Women's Program throughout the Department.

In summary, the relationship of the Office of the Secretary to IRS in Equal Employment Opportunity matters is principally that of providing policy guidance and staff services.

OFFICE OF MANAGEMENT AND ORGANIZATION

The Office of Management and Organization develops, directs and coordinates on behalf of the Assistant Secretary for Administration selected Departmentwide management programs and systems, and serves as an inhouse management consultant staff to analyze problems and develop and recommend corrective action. Analyses are made at the direction of the Secretary, Deputy Secretary, or Under Secretaries, and upon request of Assistant Secretaries and Commissioners of Bureaus, including the Internal Revenue Service. These programs and special studies permit senior officials in the Office of the Secretary to maintain continuing overview and interaction with senior IRS officials.

Departmentwide Management Programs and Systems

1. Long Range Planning

Each Bureau, including Internal Revenue Service, engages in a planning process and submits its plans to the appropriate supervising policy official in the Office of the Secretary. This assures that programs fulfill the Bureaus' lawful missions, that policy officials and Bureau heads agree on goals, assumptions and priorities, and that they understand the future resources implications of current plans.

2. Management by Objectives

The Treasury uses Management by Objectives to identify and track high priority current objectives of the Bureaus and the Office of the Secretary. In conformance with this process, the Commissioner of Internal Revenue identified for Fiscal Year 1975 seven major operations objectives, and discussed their status during quarterly meetings with the Deputy Secretary, and the Assistant Secretary for Administration.

3. Productivity

The Treasury has participated in all Governmentwide programs to measure and enhance productivity. Since 1970, Internal Revenue Service and all other Treasury Bureaus have been involved in the joint GAO/OMB/CSC productivity measurement effort launched at the request of Senator Proxmire. Since then, Office of the Secretary staff have worked with Internal Revenue Service and Bureau of Labor Statistics experts on refining IRS productivity indicators to preclude their misuse.

4. Advisory Committee Management

The Assistant Secretary for Administration is responsible for implementation of the Federal Advisory Committee Act within Treasury. He approves the rationale for establishing Treasury advisory committees and the issuance of their formal charters; assures conformance with other specific requirements of the Act;

and prepares an annual report on Treasury advisory committees. The Internal Revenue Service utilizes four advisory committees that come under the purview of the Assistant Secretary's responsibilities.

Special Studies of Internal Revenue Service

In recent years, the Office of Management and Organization has participated with IRS staff members in making special studies of IRS operations. For example, a comprehensive study of the IRS organization resulted in the transfer of functions in 1971 between assistant commissioners in the National Office and recommendations to reduce the number of Regions and District Offices in the field. In 1972, a study of the alcohol, tobacco and firearms organization and functions led to subsequent establishment of a separate bureau to administer these programs. In 1973, a study of IRS administrative programs produced 50 recommendations to improve the effectiveness of individual administrative functions and strengthen the role of administration throughout the Internal Revenue Service.

OFFICE OF PERSONNEL

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Personnel management within the Treasury Department is conducted on a decentralized basis with a high degree of delegation to the Bureau heads. In practice, this means that a Bureau head, such as the Commissioner of Internal Revenue, has wide latitude to develop personnel programs which are responsive to his Bureau's needs and has sufficient delegated authority to act on most personnel actions at grade GS-15 and below. This involves the vast bulk of personnel actions.

The Internal Revenue Service has an effective personnel management program which is considered to be one of the best in the Federal Government. Because of the capability of the personnel staff, IRS has the capacity to develop and operate many sophisticated personnel programs. This capacity is recognized by the Department and is taken into account in determining relationships and courses of action with the Internal Revenue Service.

Interaction is maintained between Internal Revenue Service and the Department through a variety of means such as the following:

Personnel Practices

The Department develops policies applicable to all Bureaus when it is necessary to ensure consistency and equity throughout the Department. IRS input is sought and used in development of these policies.

Legislative Personnel Proposals and CSC Programs

IRS input is sought and used in the development of the Department's position on these matters.

Executive Manpower

Supergrade slots are managed as a Department resource. IRS use of these slots (except for a number specifically allotted to IRS by legislation) is approved at the Department level. Selections recommended by IRS to fill supergrade positions go to the Civil Service Commission for approval of qualifications through the Secretary, who has retained approval authority for Assistant Commissioner selections and reviews all other supergrade nominations for conformity to standards. Any actions involving executive level positions are also acted on at the Department level.

Personnel Management Evaluation

The Department establishes policies for evaluation activities in all Bureaus. These activities are designed to assure compliance with laws and regulations and to promote more effective personnel management. The Department participates in selected Civil Service Commission evaluations of Internal Revenue Service activities and conducts its own evaluations in IRS. However, the primary emphasis of the program is to support and encourage Bureau-level self-evaluation efforts.

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Personnel Security Evaluations

Internal Revenue Service has delegated authority from the Department to act on personnel security matters. The Department conducts evaluations to ensure that the program is in compliance with applicable standards.

Contacts with the Civil Service Commission

Contacts with the Civil Service Commission are made on a wide variety of matters such as Whitten Amendment waivers, approval of pay above the minimum, changes in classification and qualification standards, and classification actions involving upgrading twenty or more positions. The Department is a focal point for contacts from and to the Civil Service Commission, and Internal Revenue Service makes these contacts through the Department with minor exceptions.

Technical advice and assistance on the selected matters noted above are just a sampling of the wide range of personnel matters on which Internal Revenue Service and Department staff are in daily contact. Personnel staff at both levels have engaged in a truly collaborative effort which has resulted in an effective and mutually supportive working relationship.

Man-Years and Dollars Devoted to Economic Stabilization and Federal Energy Programs
(dollar amounts in thousands)

Total Program	Fiscal Year 1972 Man-Years	Fiscal Year 1972 Amount	Fiscal Year 1973 Man-Years	Fiscal Year 1973 Amount	Fiscal Year 1974 Man-Years	Fiscal Year 1974 Amount
Economic Stabilization Program (ESP)-	1,822	32,081	2,714	42,263	2,238	44,962
Less:						
ESP appropriated funds				37,863		
Transfer from Cost of Living Council		1,150		4,400		44,962
Net ESP cost to IRS		30,931		0		0
Federal Energy Office (FEO)					205	5,952
Less:						
Transfer from Department of the Interior						5,952
Net FEO cost to IRS						0
Total IRS	1,822	30,931	2,714	0	2,443	0

EXHIBIT 3

EXHIBIT 4

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2. Question:

What specific types of training were provided IRS and other trainees at the Center?

Answer:

The Center provides the following training for law enforcement personnel:

1. Criminal Investigator Basic Training for IRS criminal investigators and for criminal investigators of other participating agencies (and for others when space is available). The details of the curriculum for the course given by the Criminal Investigator School are at Attachment A.

2. Police Basic Training for police officers of the participating agencies (and for others when space is available). The curriculum for this course is shown at Attachment B. The Police School also gives shortened versions of the 12-week course, one which lasts for 8 weeks and the other 5 weeks. The curricula for those are shown at Attachments C and D.

3. Firearms Training (basic, advanced and requalification) for criminal investigators and police officers of all the participating agencies, including IRS.

4. Driver Training (basic and advanced) in operation of law enforcement-type motor vehicles for police officers of the participating agencies and for others, when requested, if space is available, including investigators.

5. Advanced Law Enforcement Photography for criminal investigators of all the participating agencies, including IRS, and police officers of the participating agencies. The curriculum is shown at Attachment E.

In addition to the training given by Center instructors, the Center has provided facilities and audio-visual support for the following courses conducted by the participating agencies:

1. U.S. Park Police

(1) Specialized Recruit Training
(2) Sex Crimes Seminar
(3) Hostage Negotiations Seminar
(4) Field Training Officer Program
(5) Fingerprint Classification

2. U.S. Park Rangers

   (1) Specialized Recruit
   (2) Seasonal Ranger Training

3. U.S. Customs Service Special Agents

   (1) Specialized Recruit
   (2) Computer Training
   (3) Advanced Agent Training
   (4) Special Operations
   (5) Management Seminar

4. U.S. Fish and Wildlife Service Special Agents

   - Specialized Recruit

5. U.S. Marshals Service

   - Bank Security Program

6. U.S. Secret Service Special Agents and Executive Protective Service Officers

   - Advanced, In-Service, Refresher and Specialized Courses

7. National Zoological Park Police

   - In-Service training courses

8. FAA Metropolitan Washington Airport Service Police

   - Specialized Training

The Center also conducted a law enforcement seminar for the training officers from the 24 participating agencies, and special training courses for personnel from the Mining Enforcement and Safety Administration.

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ATTACHMENT A

CRIMINAL INVESTIGATOR SCHOOL

INDEX OF COURSES

The Program of Instruction is divided into three course categories: Courses 1 - 9, General Courses; 10 - 29, Law Courses; 30 - and above, Investigative Technique Courses. Omissions are purposely left in the numbering system to allow for future changes or additions in each category.

GENERAL COURSES

(1 - 9)

Course 1: Ethics and Conduct for Investigators
Course 2: Organized Crime
Course 3: Orientation on Mission & Jurisdiction of the Federal Enforcement Agencies
Course 4: Orientation on Counterfeit Currency
Course 5: Orientation on Contraband Narcotics

LAW COURSES

(10 - 29)

Course 10: Civil Rights
Course 11: Conduct and Testifying in Court
Course 12: Conspiracy
Course 13: Constitutional Law
Course 14: Evidence
Course 15: Federal Court Procedures
Course 16: Firearms Violations Under Federal Law
Course 17: Law of Arrest
Course 18: Parties to Criminal Offenses
Course 19: Preparation for Trials
Course 20: Searches and Seizures
Course 21: Tactics of Defendants

INVESTIGATIVE TECHNIQUE COURSES

(30 - and above)

Course 30: Arrest Techniques
Course 31: Bombs and Explosives
Course 32: Criminalistics
Course 33: Description and Identification
Course 34: Fingerprints
Course 35: Informants
Course 36: Interviewing
Course 37: Marksmanship
Course 38: Oral Communications

(OVER)

Course 39: Photography
Course 40: Dignitary Protection
Course 41: Questioned Documents
Course 42: Raids
Course 43: Recognizing and Handling Disturbed Persons
Course 44: Effective Writing
Course 45: Civil Disturbances
Course 46: Sources of Information
Course 47: Surveillance
Course 48: Undercover Operations

GROUP PRACTICAL EXERCISES

(Course 99)

The following practical exercises are designed to provide situations which will allow the student to apply the knowledge he has gained in the classroom.

<u>Practical Exercises</u>:

1 - Judgement Pistol Shooting
2 - Criminalistics
3 - Latent Fingerprints
4 - Photography Critique
5 - Defendant Processing
6 - Raid Planning and Briefing
7 - Obtaining a Search Warrant
8 - Execution of a Search Warrant
9 - Sketch, Description and Inventory of Premises Searches and Property Seized
10 - Testifying

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CONSOLIDATED FEDERAL LAW ENFORCEMENT TRAINING CENTER

POLICE SCHOOL

LEGAL SECTION:

COURSE NUMBER	SUBJECT	HOURS
101	Organized Crime	3
102	Organization & Functions of Law Enforcement Agencies	2
103	Constitutional Law & Civil Liberties	5
104	Criminal Violations	18
105	Detention & Arrest	14
106	Law of Search and Seizure	15
107	Law of Evidence	12
108	Federal Court Systems and Procedures	6

CRIMINALISTICS SECTION:

COURSE NUMBER	SUBJECT	HOURS
201	Preliminary Police Investigation	2
202	Introduction to Criminalistics	16
203	Fingerprinting	5
204	Photography	6
205	Recognizing Narcotic Violations	8
206	Firearms Violations	5
207	Recognizing Bombs and Explosives	6
208	Recognizing & Handling the Ill, Injured and the Deceased	15

COMMUNICATION SKILLS SECTION:

COURSE NUMBER	SUBJECT	HOURS
301	Oral Communications	9
302	Note Taking	2
303	Effective Writing	8
304	Radio Communications	8
305	Court Testimony	12
306	Description and Identification	3
307	Techniques of Interviewing	15
308	Sources of Information	5
309	News Media	2
310	Driver Training	24

HUMAN RELATIONS SECTION:

COURSE NUMBER	SUBJECT	HOURS
401	Ethics and Conduct	2
402	Introduction to Human Relations	16
403	Patrol Techniques	12
404	Crowd, Mob Appraisal/Use of Defensive Equipment	18
405	Physical Defense Tactics	50
406	First Aid and Personal Safety	21
407	Marksmanship/Judgement Pistol Shooting	2

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FIREARMS TRAINING:

COURSE NUMBER	SUBJECT	HOURS
501	Firearms Orientation	3-1/2
502	Standard Qualification Course	15
503	Practical Pistol Course	12
504	Modified Pistol Course	6
505	Shotgun Orientation	1
506	Night Firing	1
	Travel Time	11-1/2

DRIVER TRAINING:

COURSE NUMBER	SUBJECT	HOURS
601	Orientation to Driver Training	7
602	Skid Pan	4
603	Pursuit Driving	4
604	Defensive Driving	4
	Evaluation	3

ADMINISTRATIVE TIME

Orientation	2
Center Orientation	3-1/2
Examinations	13
Admin. Time/Graduation	7

ATTACHMENT C

EIGHT-WEEK PROGRAM

CONSOLIDATED FEDERAL LAW ENFORCEMENT TRAINING CENTER

POLICE SCHOOL

LEGAL SECTION:	HOURS OF INSTRUCTION
102 Organization & Function of Law Enforcement Agencies	2
103 Constitutional Law & Civil Liberties	5
105 Detention and Arrest	14
106 Law of Search & Seizure	15
107 Law of Evidence	15
108 Federal Court System & Procedure	6

CRIMINALISTICS SECTION:	
201 Preliminary Police Investigation	2
206 Firearms Violations	3
207 Recognizing Bombs and Explosives	4
208 Recognizing and Handling the Ill, Injured and Dead	13

COMMUNICATIVE SKILLS SECTION:	
301 Oral Communications	12
302 Note Taking	2
303 Effective Writing	8
304 Radio Communications	3
305 Court Testimony	11
306 Description & Identification	3
307 Interviewing	15

(OVER)

HUMAN RELATIONS SECTION:	HOURS OF INSTRUCTION
401 Ethics and Conduct	2
402 Human Relations	16
403 Patrol Techniques	4
405 Physical Defense Tactics	43
406 Multimedia First Aid	7
407 Judgement Pistol Shooting	1
FIREARMS TRAINING:	
501 Firearms Orientation	3-1/2
502 Standard Qualification Course	15
503 Practical Pistol Course	12
504 Modified Pistol Course	6
505 Shotgun Orientation	1
506 Night Firing	1
Travel Time	11-1/2
DRIVER TRAINING SECTION:	
601 Orientation to Driver Training	7
602 Skid Pan	4
603 Pursuit Driving	4
604 Defensive Driving	4
Evaluation	3
ADMINISTRATIVE TIME:	
Orientation	2
Examinations	5
Counseling	2

ATTACHMENT D

FIVE-WEEK PROGRAM

CONSOLIDATED FEDERAL LAW ENFORCEMENT TRAINING CENTER

POLICE SCHOOL

LEGAL SECTION:

COURSE NUMBER	SUBJECT	HOURS
103	Constitutional Law & Civil Liberties	4
104	Criminal Violations	6
105	Detention & Arrest	5
106	Law of Search & Seizure	6
107	Law of Evidence	2
108	Federal Court Systems & Procedures	4

CRIMINALISTICS SECTION:

COURSE NUMBER	SUBJECT	HOURS
202	Introduction to Criminalistics	3
205	Recognizing Narcotics Violations	2
206	Firearms Violations	1
207	Recognizing Bombs & Explosives	5
208	Recognizing & Handling the Ill, Injured & Dead	1

COMMUNICATION SKILLS:

COURSE NUMBER	SUBJECT	HOURS
302	Note Taking/Effective Writing	2
305	Court Testimony	2
306	Description & Identification	2
307	Techniques of Interviewing	4-1/2

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HUMAN RELATIONS SECTION:

COURSE NUMBER	SUBJECT	HOURS
401	Ethics and Conduct	1
402	Introduction to Human Relations	10-1/2
403	Patrol Techniques	6
404	Appraising Crowds & Mobs/ Use of Defensive Equipment	7
405	Physical Defense Tactics	23
406	First Aid and Personal Safety	7
407	Marksmanship/Judgement Pistol Shooting	1
408	Introduction to Law Enforcement	2
409	Police/Community Relations	2

FIREARMS TRAINING

COURSE NUMBER	SUBJECT	HOURS
501	Firearms Orientation	3-1/2
502	Standard Qualification Course	15
503	Practical Pistol Course	12
504	Modified Pistol Course	6
505	Shotgun Orientation	1
506	Night Firing	1

ADMINISTRATIVE TIME

Orientation	1
Examinations	4
Admin. Time/Graduation	1-1/2

ATTACHMENT E

The course covers the following topics:

(1) Camera and Meters

(2) Identification Photographs

(3) Lenses

(4) Flash Photography

(5) Color Photography

(6) Instant Photography

(7) Surveillance and Crime Scene Photography

(8) Video Tapes and Movies

(9) Legal Aspects

(10) Infrared Photography

(11) Ultraviolet Photography

TREASURY TECHNICAL INVESTIGATIVE AIDS SCHOOL

Index of Subjects

Registration & Orientation	1 hr.
Constitutional Protection	4 hrs.
Basic Electronics	15 hrs.
Basic Electronics Review	3 hrs.
Basic Electronics Exam	1 hr.
Discussion of Exam	1 hr.
Microphones	1 hr.
Communications Security	3 hrs.
Preliminary Surveys & Planning	1½ hrs.
Operational Procedures	2½ hrs.
Impedance, Transformers, Schematics	1 hr.
Amplifiers & Recorders	3 hrs.
Photography	3 hrs.
Room Security (Including Films)	8 hrs.
Room Security Review	2 hrs.
Communications Equipment - Transmission & Receiving	1 hr.
Manufacturers' Equipment Demonstrations	4 hrs.
Trip to Fort Holabird, Md., Army Intelligence School	8 hrs.
Critique of Work Problems & Panel Discussion	4 hrs.

Work Problems (Six Days' Duration)

Class is divided into groups which are rotated as follows:

Photography	8 hrs.
Construction of Pre-Amplifier	8 hrs.
Construction of Personal Alarm Device	8 hrs.
Microphone Installation	4 hrs.
Transmitters: Body & Car Installation	4 hrs.
Counter Intelligence: Sweep & Code Oscillation	4 hrs.
Construction of Plug & Wire Connectors	4 hrs.
Construction of Volt-O-Meter	4 hrs.
Construction of Carbon Microphone Matching Transformer Set-up	4 hrs.

TREASURY LAW ENFORCEMENT SCHOOL

Schedule for
Technical Investigative Aids School No. 606-T
March 22-April 9, 1965
Washington, D. C.

First Week

Monday - March 22, 1965

8:30-9:20	Registration and Orientation	Mr. O'Carroll, Mr. Connors & Mr. Hartenstine
9:30-12:20	Constitutional Protection	Mr. Kaplan
1:10-2:00	Constitutional Protection (Cont.)	Mr. Kaplan
2:10-5:00	Basic Electronics	M/Sgt. Thomas

Tuesday - March 23, 1965

7:45 (All Day)	Visit to U. S. Army Intelligence School, Fort Holabird, Md.	U. S. Army

Wednesday - March 24, 1965

8:30-12:20	Basic Electronics (Cont.)	M/Sgt. Thomas
1:10-2:00	Microphones	Mr. Yung
2:10-5:00	Communications Security	Mr. Miller

Thursday - March 25, 1965

8:30-12:20	Basic Electronics (Cont.)	M/Sgt. Thomas
1:10-2:35	Preliminary Surveys and Planning	Mr. Morrison
2:35-5:00	Operational Procedures	Mr. Hekel

Friday - March 26, 1965

8:30-12:20	Basic Electronics (Cont.)	M/Sgt. Thomas
1:10-2:00	Impedance, Transformers, Schematics	Mr. Mayo
2:10-5:00	Amplifiers and Recorders	Mr. Hart

Second Week

Monday - March 29, 1965

8:30-11:20	Basic Electronics Review	M/Sgt. Thomas
11:30-12:20	Basic Electronics Examination	M/Sgt. Thomas
1:10-2:00	Discussion of Examination	M/Sgt. Thomas
2:10-5:00	Photography	Mr. Akre & Mr. Joyce

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Tuesday, Wednesday & Thursday
March 30, 31 & April 1, 1965

8:30-5:00 (Each Day)	Work Problems (See attached Work Problem Schedule No. 1)	Faculty

Friday - April 2, 1965

8:30-11:20	Room Security	Mr. Connelly
11:30-12:20	Films	Mr. Connelly
1:10-5:00	Room Security (Cont.)	Mr. Connelly

Third Week

Monday, Tuesday & Wednesday
April 5, 6 & 7, 1965

8:30-5:00 (Each Day)	Work Problems (See attached Work Problem Schedule No. 2)	Faculty

Thursday - April 8, 1965

8:30-10:20	Room Security Review	Mr. Connelly
10:30-11:20	Film - "The Big Ear"	
11:30-12:20	Communications Equipment - Transmission and Receiving	Mr. Balen
1:10-5:00	Equipment Demonstrations	Commercial Firms

Friday - April 9, 1965

8:30-12:00	Critique of Work Problems and Panel Discussion	Faculty
12:00-2:00	Graduation Luncheon & Awarding of Certificates	

9200
Types of Investigations

9210
Criminal Investigations

9211
General

(1) The investigative jurisdiction of Intelligence extends to any and all alleged or suspected violations of the internal revenue laws that are punishable as crimes with the following exceptions: violations of internal revenue laws relating to alcohol, tobacco, firearms, and narcotics; attempted bribery of Internal Revenue Service personnel; malfeasance on the part of Internal Revenue Service personnel; unauthorized disclosure of Federal tax information by Federal or State employees, corporate shareholders, document reproducers, and others (IRC 7213); and unauthorized disclosure or use of certain tax information by persons engaged in the business of preparing or providing services in connection with the preparation of returns (IRC 7216).

(2) Intelligence has investigative jurisdiction over attempts to interfere with the administration of the internal revenue laws by force or threats of force when the forcible interference takes place during an armed escort assignment or during an arrest or raid in connection with a matter pending before Intelligence; or when the assistance of Intelligence is requested by the Regional Inspector. In addition, Intelligence will assist Inspection in emergency situations (See also IRM 9123 and IRM 9142.)

(3) Bribery attempts incident to raids or arrests executed by or under the direction of Intelligence personnel fall within the investigative jurisdiction of Intelligence, this being an exception to the general rule that attempts to bribe Internal Revenue Service personnel are the investigative responsibility of Inspection. (See also IRM 9123 and IRM 9142.)

(4) Intelligence is also charged with responsibility for seizing forfeitable personal property used or intended for use in violations under the investigative jurisdiction of the Division. Usually such property relates to violations or intended violations of the laws applicable to wagering and to coin-operated gaming devices.

9212
Violations Punishable as Crimes Under the Internal Revenue Code

Certain internal revenue law violations that are punishable as crimes are set out in Chapter 75 of the Internal Revenue Code of 1954 together with the maximum penalties for such offenses. The violations that are within the investigative jurisdiction of Intelligence are cited and summarized below:

IRC	
7201	—Evasion of tax in any manner;
7202	—Failure to collect or account for and pay over tax;
7203	—Failure to file return, pay tax, keep records, or supply information;
7204	—Furnishing false statement to employee regarding withheld tax, or failure to furnish statement;
7205	—Supplying false withholding information to employee, or failure to supply information;
7206(1)	—Making and subscribing a false return, statement, or other document under the penalties of perjury;
7206(2)	—Aiding or advising the preparation or presentation of a false return affidavit, claim, or other document;
7206(3)	—Executing a false bond, permit, or other document, or aiding or advising such an execution;
7206(4)	—Removing, depositing, or concealing property subject to tax or levy with intent to evade;
7206(5)	—Concealing property, withholding, mutilating or falsifying a record, or making a false statement in connection with a compromise or closing agreement;
7207	—Delivering or disclosing any list, return, or other document known to be false;
7208	—Counterfeiting, mutilating, and other offenses relating to tax stamps;
7209	—Unauthorized buying, selling, using, etc., of tax stamp and other tax collection devices;
7210	—Failure to obey summons;
7211	—False statement to a purchaser or lessee relating to amount of tax involved in purchase or lease;
7212(a)	—Forcible interference with administration of the internal revenue laws (see IRM 9211:(2));
7212(b)	—Forcible rescue of seized property;
7215	—Failure to comply with notice (under Section 7512) to collect withheld income and social security taxes and collected excise taxes and to deposit such taxes in a special bank account;
7231	—Failure to obtain license for collection of foreign items (dividends and interest);
7232	—Failure to register or give bond or false statement by manufacturer or producers of gasoline or lubricating oil;
7233	—Violations relating to cotton futures;
7234	—Violations relating to oleomargarine;
7235	—Violations relating to adulterated butter;
7236	—Violations relating to filled cheese;
7239	—Violations relating to white phosphorous matches;
7241	—Execution of false certificate (Interest Equalization Tax);
7261	—Representation, in connection with a sale or lease, that the retailer's excise tax is excluded from the price;

9212
tions Punishable as Crimes Under the Internal ue Code—Cont.

IRC

7262 —Failure to pay wagering occupational tax;
7264 —Failure to pay tax on manufacture of processed, renovated, or adulterated butter;
7265 —Violations relating to oleomargarine and adulterated butter;
7266 —Violations relating to filled cheese;
7267 —Violations relating to white phosphorous matches;
7270 —Failure to affix stamps on foreign insurance policy with intent to evade tax;
7275 —(Cross-reference to section 4234)—Selling incorrectly printed admission ticket.

9213
Crimes Under Title 18, United States Code

The provisions of Title 18, United States Code, that are cited and summarized below provide for the punishment of crimes which, if committed in contravention of the internal revenue laws, may be investigated by special agents of Intelligence

Section

2 —Aiding, abetting counseling, commanding, inducing, or procuring the commission of an offense;
3 —Receiving, relieving, comforting, or assisting an offender to hinder or prevent his apprehension, trial, or punishment;
4 —Misprison of felony (failure to disclose and concealment of information about commission of a felony);
111 —Assaulting, resisting, or impeding Federal officers or employees;
201 —Attempted bribery (see IRM 9123:(1));
284 —Prosecution of a claim against the United States by a former employee (illegal by reason of official involvement);
285 —Taking from official files papers relating to claims or using papers so taken;
286 —Conspiring to defraud the United States with respect to claims;
287 —Filing false, fictitious or fraudulent claims upon the United States;
371 —Conspiracy to commit an offense against or to defraud the United States;
372 —Conspiracy to impede or injure a Federal officer;
494 —Counterfeiting, forging, or falsifying bonds, public record, affidavits, or other writings to defraud the United States, etc.;
495 —Counterfeiting, forging, or falsifying powers of attorney, orders, receipts, or other writings to obtain money from or to defraud the United States etc.;
1001—Making false, fictitious, or fraudulent written or oral statements or representations in a manner within the jurisdiction of a department or agency of the United States;
1002—Possessing false writings or documents to enable another to obtain money from the United States;
1084—Transmitting wagering information by wire (see IRM 9420);
1114—Killing a Federal officer;
1501—Obstructing or assaulting a duly authorized server of a writ or process of a U.S. Court or of a United States Commissioner;
1621—Perjury;
1622—Procuring another to commit perjury (subornation of perjury);
1623—Making false declarations before a Grand Jury or Court
1952—Interstate and foreign travel or transportation in aid of racketeering enterprises (see IRM 9420);
1953—Interstate transportation of wagering paraphernalia (see IRM 9420);
2071—Concealing, removing, or mutilating Government records and reports;
2231—Assaulting, resisting, or interfering with a person making an authorized search or seizure;
2232—Destroying or removing property to prevent its seizure;
2233—Rescuing seized property.

9214
Crimes Under Title 31, United States Code

(1) The provisions of Title 31, United States Code that are cited and summarized below provide for the punishment of crimes committed in contravention of Financial Recordkeeping and Reporting requirements of Treasury Regulations, 31 CFR Part 103.

(2) General Provisions of Treasury Regulations, 31 CFR Part 103 *Regulations Section(s).*

(a) 103.22, 103.25(a) and 103.26. When any person engages in a currency transaction of more than $10,000 with a financial institution, the financial institution must report the identity of the person or persons involved and file a report on Form 4789 containing certain details of the transaction within 45 days.

(b) 103.23(a), 103.23(b) and 103.25(c). Any person transporting or causing transportation of more than $5,000 of currency or certain monetary instruments at any one time, into or out of the United States, must file a report with the Bureau of Customs on Form 4790 at the time of departure, mailing or shipping.

(c) 103.24 and 103.32. A person must indicate on his income tax return whether or not he has any interest in or authority over a foreign financial account.

(d) The Intelligence Division has investigative jurisdiction for enforcement of (a) and (c) above. The U. S. Customs Service enforces (b).

(3) *Criminal Penalties under Title 31, United States Code*

(a) For each willful violation of these regulations, a fine of up to $1,000 and/or imprisonment for not more than one year (except for recordkeeping violations by insured banks and savings and loan associations.)

(b) For each violation of the recordkeeping requirements, a fine of up to $10,000 and/or imprisonment of not more than five years if the violation is committed in connection with the violation of a Federal law punishable by imprisonment for more than one year.

(c) For each false statement or representation in any report required by these regulations, a fine of not more than $10,000 and/or imprisonment of not more than five years.

(d) For each violation of the reporting requirements, a fine of up to $500,000 and/or imprisonment of not more than five years if the violation is committed in furtherance of the commission of any other violation of Federal law or committed as part of a pattern of illegal activity and which involves more than $100,000 in a twelve-month period.

9215
Selection of Cases for Criminal Investigation

(1) Policy statement P–9–18 contains factors to be considered in selecting cases for criminal investigation.

(2) Factors for selecting cases involving suspected violations of IRC 7512 are contained in 200:(1) of Law Enforcement Manual IX.

9216
Time Limitation on Prosecutions

(1) The period of time within which criminal proceeding may be instituted in a particular case is governed by the followng sections of the statutes:

(a) Section 6531—Internal Revenue Code of 1954

(b) Section 3282—Title 18, United States Code

(2) For further treatment of the time limitation on prosecutions see 140 of IRM 9900, Handbook for Special Agents.

511 EXHIBIT 7

Funds Applied to Law Enforcement Functions
(Dollar amounts in millions)

	Intelligence		Internal Security	
Year	$	MY	$	MY
1970	47.2	2,682	7.7	403
1971	54.4	2,704	8.9	424
1972	64.2	2,979	9.6	451
1973	74.0	3,182	10.6	515
1974	85.9	3,506	12.5	526
1975 est.	100.3	3,837	12.9	543
1976 prop.	103.4	3,899	13.7	552

Summary of Intelligence Projects

1. FHA-HUD - This project involves a systematic investigation of alleged massive criminal abuse of various FHA programs. These abuses relate to bribes to officials of FHA (HUD), payoffs to FHA appraisers and inspectors, and kickbacks from contractors and subcontractors. Investigations are being coordinated by Assistant U. S. Attorneys in 21 major cities.

2. Recording Industry - This project involves the investigation of alleged tax fraud in the recording, radio and entertainment field. The investigation is centralized in Newark, New Jersey and is being worked in conjunction with the U. S. Attorney's Office there.

3. Foreign Financial Accounts - This project is directed toward the growing use of foreign bank and brokerage accounts by United States citizens for the purpose of evading taxes on unreported income. Included in the evasion schemes discovered is the use of some highly questionable foreign trust arrangements to which income generated by United States entities passes through for similar tax evasion purposes.

4. Pension Trust Funds - This project was structured to determine the extent to which fees generated from real estate mortgage loans made by several unions' pension funds are not reported as income.

5. Junketeers - This project involves the investigation of individuals and entities which schedule and promote gambling junkets to Nevada casinos. Investigations in process disclose substantial income is not reported by the junketeers, organizers, and in some cases, the casinos.

6. Trust Funds - This is a nationwide project implemented to facilitate more effective use of the criminal sanctions of Section 7215 IRC in prosecuting trust fund law violations. The Intelligence Division and the Collection Division jointly identify taxpayers who do not comply with the requirement to timely deposit withheld taxes.

7. Tax Practitioners - This project was initiated in 1972 because of the high incidence of fraudulently prepared income tax returns by unscrupulous tax return preparers. The objective of the project was to prosecute fraudulent return preparers and to increase public awareness of our compliance efforts.

8. Failure to File by Tax Professionals - This project was initiated in 1973 because of the high incidence of willful failure to file income tax returns by Attorneys, Certified Public Accountants and Enrolled Practitioners. The project is complete with the exception of cases pending disposition with the United States Attorney.

9. Illegal Campaign Contributions - This project is explained in detail in Exhibit F. It is directed toward fraudulent deductions claimed by corporations for contributions made to political parties and other tax abuses involving political expenditures.

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Audit Technical Man-Years by Program
FY 72 - 74

	Number of Revenue Agents		
	FY 1972	FY 1973	FY 1974
Income, Estate & Gift	10,102	9,667	10,804
Exempt Organizations	622	553	454
Excise	349	342	332
Employment	290	277	308
Pension Trust	422	397	483
Joint Compliance	205	177	171
Service Centers	-	-	
Economic Stabilization	515	422	60
Taxpayer Service	238	425	612
Special Enforcement			
Narcotics	91	265	255
Strike Force	585	576	540
D of Justice Interest	*	116	96
Other Racketeers	47	61	105
Total	13,466	13,278	14,220

* Included in Strike Force

	Number of Tax Auditors		
	FY 1972	FY 1973	FY 1974
Income, Estate & Gift	2,870	2,985	3,731
Exempt Organizations	49	71	93
Excise	35	33	32
Employment	27	33	42
Pension Trust	11	9	17
Joint Compliance	3	-	5
Service Centers	14	28	30
Economic Stabilization	60	21	7
Taxpayer Service	117	180	117
Total	3,186	3,360	4,191

EXHIBIT 10

26 CFR 1.162-20: Expenditures attributable to lobbying, political campaigns, attempts to influence legislation, etc., and certain advertising.

Business expenses; attempt to influence legislation through stockholders. The expenses incurred by a domestic corporation for preparing, printing, and distributing to its shareholders a pamphlet focusing on proposed legislation which would adversely affect the company's tax liability and suggesting that the shareholders contact their congressmen to make known their views concerning such proposed legislation are not deductible as business expenses by reason of section 162(e)(2)(B) of the Code.

Rev. Rul. 74-407

Advice has been requested whether, under the circumstances described below, expenses incurred in connection with communication of information between the taxpayer and its shareholders in connection with legislation or proposed legislation of direct interest to the taxpayer are deductible under section 162(e) of the Internal Revenue Code of 1954.

The taxpayer, a domestic corporation engaged in manufacturing, published a pamphlet in 1973 which it mailed to its shareholders. The pamphlet focused on proposed legislation that would eliminate tax incentives for taxpayers to make capital improvements. In addition, the pamphlet explained why such legislation would be detrimental to the shareholders, and suggested measures that would increase the tax incentives for capital improvements. The pamphlet further suggested that the shareholders make their views known to their congressional representatives.

The specific question is whether the expenses incurred by the taxpayer in preparing, printing, and distributing the pamphlet to its shareholders are not deductible as a business expense by reason of section 162(e)(2)(B) of the Code.

Section 162(e)(1) of the Code provides that the deduction allowed by section 162(a) shall include all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business (A) in direct connection with appearances before, submission of statements to, or sending communications to, the committees, or individual members, of Congress or of any legislative body of a State, a possession of the United States, or a political subdivision of any of the foregoing with respect to legislation or proposed legislation of direct interest to the taxpayer, or (B) in direct connection with communication of information between the taxpayer and an organization of which he is a member with respect to legislation or proposed legislation of direct interest to the taxpayer and to such organization, and that portion of the dues so paid or incurred with respect to any organization of which the taxpayer is a member which is attributable to the expenses of the activities described in subparagraphs (A) and (B) carried on by such organization.

Section 162(e)(2)(B) of the Code provides that the provisions of 162(e)(1) shall not be construed as allowing the deduction of any amount paid or incurred (whether by way of contribution, gift, or otherwise) in connection with any attempt to influence the general public, or segments thereof, with respect to legislative matters, elections, or referendums.

Legislative consideration was given to a provision allowing a deduction for expenditures incurred in direct connection with communication of information between a taxpayer and a shareholder with respect to legislation or proposed legislation of direct interest to the taxpayer, thus excepting such expenditures from the provisions of section 162(e)(2)(B) of the Code. However, such provision was not adopted. See 108 Cong. Rec. 18493 (1962).

Accordingly, it is held that the expenses incurred by the taxpayer in preparing, printing, and distributing the pamphlet to its shareholders are the type of expenses described in section 162(e)(2)(B) of the Code. Consequently, they are not includible within the class of expenses described in section 162(e)(1) and which are deductible under section 162(a).

manual supplement

42G-319
43G-14

Department of the Treasury **Internal Revenue Service**

December 31, 1974

Examination of Political Organizations and Committees, Candidates and Contributors

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Section 1. Purpose

.01 This Supplement transmits Chapter (13)00 of IRM 4231, Audit Technique Handbook for Internal Revenue Agents.

.02 This Chapter is for the use of Tax Auditors, Internal Revenue Agents and Estate Gift Tax Attorneys, in examining income tax returns and gift tax returns of political committees, candidates and contributors.

.03 In connection with the examination of political committees, Revenue Ruling 72-355 holds that bona fide political campaign committees should be considered separate donees, for purposes of the annual $3,000 gift tax exclusion. A district court judge has ruled that revenue ruling null and void, for gifts made after June 7, 1974. A notice of appeal has been filed. Pending further litigation and further instructions, cases involving quarterly gift tax returns for June 30, 1974, and subsequent, should be suspended, where exclusions were claimed for separate campaign committees. IRM 4559 procedures should be followed. This suspension does not apply to cases where we are proposing disallowance of the exclusions on the grounds that the committees are invalid.

Section 2. Auditing Techniques

See Law Enforcement Manual Supplement IV-1.

Section 3. Effect on Other Documents

This supplements IRM 4231, Audit Technique Handbook for Internal Revenue Agents; IRM 4316.24; and Chapter (26)14 of IRM 4350, Audit Technique Handbook for Estate Tax Examiners. This "effect" should be so annotated by pen and ink on the handbook text and the basic text cited, with a reference to this Supplement.

S. B. Wolfe
Director, Audit Division

Distribution: IRM 4231, 4300, and 4350

Attachment to MS 42G-319, CR 43G-14

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Chapter (13)00

Political Organizations and Committees, Candidates, and Contributors

IRM 4231

Audit Technique Handbook for Internal Revenue Agents

Index

Attachment -- Cont. (2) to MS 42G-319, CR 43G-14

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(13)71 Internal Revenue Manual
(13)72 Manual Supplements
(13)73 Revenue Procedure 68-19
(13)74 Revenue Rulings
(13)75 Information Notice No. 70-30
(13)76 Announcements
(13)77 Technical Information Releases
(13)78 News Releases

(13)00 POLITICAL ORGANIZATIONS AND COMMITTEES, CANDIDATES, AND CONTRIBUTORS

(13)10 GENERAL INFORMATION

(13)11 Introduction

(1) This Chapter is designed to assist personnel engaged in examining income tax returns and gift tax returns of political committees, candidates and contributors. Its contents do not alter any existing technical or procedural issuances of the Service.

(2) Internal Revenue Agents, Tax Auditors, and Estate and Gift Tax Attorneys will be using this Chapter. Therefore, the term "examiner" will be used to include all such personnel engaged in these examinations.

(13)12 Purpose of Chapter

(1) The purpose of this Chapter is to provide guides which will assist examiners in conducting examinations in connection with the Political Campaign Contribution Compliance Project as provided in Manual Supplement 42G-313, CR 48G-220, CR 93G-143, CR 96G-15, dated August 5, 1974.

(2) Sound judgement and the effective use of time are of primary importance. The audit techniques should be used only to the extent that the amount involved, importance of the subject, and the experience in an area, may indicate that such techniques can reasonably be expected to foster compliance.

5

(13)13 Objective

(1) The objective of the Political Campaign Contribution Compliance Project is to investigate possible improper tax-reporting arising out of the fund-raising activities of political parties and other political organizations in connection with national and other related election campaigns, and to determine whether proper tax returns have been filed by these political parties and other political organizations.

(2) The three distinct aspects in achieving this objective are as follows.

(a) The political party or organization itself.

1. The validity of the separateness of the political organizations or committees must be determined in accordance with Rev. Rul. 72-355 and 74-199, in order to ensure that proper gift taxes have been or are reported and paid by the contributors to these committees.

2. The income tax liability of the committee must be determined in accordance with Rev. Ruls. 74-475 for years to which it applies. Any diversion of committee funds for non-campaign purposes or for personal use must be treated as income in accordance with Rev. Rul. 71-449. Such diverted funds must be reported on the committee income tax return or the individual income tax return as appropriate.

(b) Gift tax on contributors to political parties or organizations.

1. Amounts in excess of $3,000 contributed to a valid committee or a separate candidate is subject to a gift tax under IRC 2503(b). (An exception would be the $30,000 life time exemption - see (13)31:(1).

2. In cases when multiple committees are used, a $3,000 exclusion will be allowed for each valid committee. Contributions made to invalid committees will be aggregated to a related valid committee or to the candidate and gift tax applied.

(c) Disguised contributions deducted on tax returns.

1. The tax implications of political contributions have always been a concern of the Service. Presently, as in the past, Compliance activities are concentrated on discovery of nondeductible political contributions disguised and deducted as business expenses.

2. Disguised contributions may either be direct

or indirect. Indirect contributions flow through other individuals or entities to the political organization or candidates.

3. There exists the possibility of instances of collusion among contributors, public relations firms, attorneys, advertising agencies, suppliers of campaign goods and services, and members of campaign committees to disguise and illegally deduct political contributions. The schemes could entail an actual contribution of cash, goods, or services donated to the political committee. Bad debt deductions for worthless debts owed by political organizations are also prohibited except in certain instances by banks. Examiners should be aware of the possibility of one or more of these schemes being used, particularly in large corporations.

(13)14 Title 18 U.S. Code - Crimes & Criminal Procedure

Since a Title 18 violation may give rise to a Title 26 violation of the U.S. Code, we have provided the sections of Title 18 applicable to political contributions. These sections are for familiarization purposes only. As employees of the Internal Revenue Service, it is not your responsibility to enforce Title 18. When there are pure Title 18 violations, these should be routed through channels to the Assistant Regional Commissioner (Intelligence) who will forward the information to the Director, Intelligence Division, National Office.

(1) Section 610. Contributions or expenditures by national banks, corporations or labor organizations.

(a) It is unlawful for any national bank, or any corporation organized by authority of any law of Congress, to make a contribution or expenditure in connection with any election to any political office, or in connection with any primary election or political convention or caucus held to select candidates for any political office, or for any corporation whatever, or any labor organization to make a contribution or expenditure in connection with any election at which Presidential and Vice Presidential electors or a Senator or Representative in or a Delegate or Resident Commissioner to Congress are to be voted for or in connection with any primary election or political convention or caucus held to select candidates for any of the foregoing offices, or for any candidate, litical committee, 5 /

or other person to accept or receive any contribution prohibited by this section.

(b) Every corporation or labor organization which makes any contribution or expenditure in Violation of this section shall be fined not more than $5,000; and any officer or director of any corporation, or officer of any labor organization, as the case may be, and any person who accepts or receives any contribution in violation of this section, shall be fined not more than $1,000 or imprisoned not more than one year, or both; and if the violation was willful, shall be fined not more than $10,000 or imprisoned not more than two years, or both.

(c) For the purpose of this section "labor organization" means any organization of any kind, or any agency or employee representing the committee or plan, in which employees participate and which exist for the purpose, in whole or in part, of dealing with employers concerning grievances, labor disputes, wages, rates of pay, hours of employment, or conditions of work. (June 25, 1948, ch. 645, 62 Stat. 723; May 24, 1949, ch. 139, 10, 63 Stat. 90; Oct. 31, 1951, ch. 655, 20 (c), 65 Stat. 718.)

(2) Section 611. Contributions by firms or individuals contracting with the United States.

Whoever, entering into any contact with the United States or any department or agency thereof, either for the rendition of personal services or furnishing any material, supplies, or equipment to the United States or any department or agency thereof, or selling any land or building is to be made in whole or in part from funds appropriated by the Congress, during the period of negotiation for, on performance under such contract or furnishing of material, supplies, equipment, land, or buildings, directly or indirectly makes any contribution of money or any other thing of value, or promises expressly or impliedly to make any such contribution, to any political party, committee, or candidate for public office or to any person for any political purpose or use; or

Whoever knowingly solicits any such contribution from any such person or firm, for any such purpose during any such period...

Shall be fined not more than $5,000 or imprisoned not more than five years, or both. (June 25, 1948, ch. 645, 62 Stat. 724.)

(3) <u>Section 612. Publication or distribution of political statements.</u>
Whoever willfully publishes or distributes or causes to be published or distributed, or for the purpose of publishing or distributing the same, knowingly deposits for mailing or delivery or causes to be deposited for mailing or delivery, or, except in cases of employees of the Postal Service in the official discharge of their duties, knowingly transports or causes to be transported in interstate commerce any card, pamphlet, circular poster, dodger, advertisement, writing, or other statement relating to or concerning any person who has publicly declared his intention to seek the office of the President, or Vice President of the United States, or Senator or Representative in, or Delegate or Resident Commissioner to Congress, in a primary, general, or special election, or convention of a political party, or has caused or permitted his intention to do so be publicly declared, which does not contain the names of the persons, associations, committees, or corporations responsible for the publication or distribution of the same, and the names of the officers of each such association, committee, or corporation, shall be fined not more than $1,000 or imprisoned not more than one year, or both. (June 25, 1948, ch. 645, 62 Stat. 724; Aug. 25, 1950, ch. 784, 2, 64 Stat. 475; Aug. 12, 1970, Pub. L. 91-375, 6(j) (7), 84 Stat. 777.)

(4) <u>Section 613. Contributions by agents of foreign principals.</u>

(a) Whoever, being an agent of a foreign principal, directly or through any other person, either for or on behalf of such foreign principal or otherwise in his capacity as agent of such foreign principal, knowingly makes any contribution of money or other thing of value, or promises expressly or impliedly to make any such contribution, in connection with an election to any political office or in connection with any primary election, convention, or caucus to select candidates for any political office; or
Whoever knowingly solicits, accepts, or receives any such contribution from any such agent of a foreign principal or from such foreign principal--
Shall be fined not more than $5,000 or imprisoned not more than five years or both.

(b) As used in this section--

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1. The term "foreign principal" has the same meaning as when used in the Foreign Agents Registration Act of 1938, as amended, except that such term does not include any person who is a citizen of the United States.

2. The term "agent of a foreign principal" means any person who acts as an agent, representative, employee, or servant, or any person who acts in any other capacity at the order, request, or under the direction or control, or a foreign principal or of a person any substantial portion of whose activities are directly or indirectly supervised, directed, or controlled by a foreign principal. (Added Pub. L. 89-486, 8)a), July 4, 1966, 80 Stat. 248.)

(5) Section 1001. Statements or entries generally.
Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device, a material fact, makes any false, fictitious, or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry, shall be fined not more than $10,000 or imprisioned not more than five years, or both. (June 25, 1948, ch. 645, 62 Stat. 749.)

(6) Section 1002. Possession of False papers to defraud United States.
Whoever, knowingly and with intent to defraud the United States, or any agency thereof, possesses any false, altered, forged, or counterfeited writing or document for the purpose of enabling another to obtain from the United States, or from any agency, officer or agent thereof, any sum of money, shall be fined not more than $10,000 or imprisoned not more than five years, or both. (June 25, 1948, ch. 645, 62 Stat. 749.)

(13)20 DETERMINING THE VALIDITY OF POLITICAL ORGANIZATIONS AND COMMITTEES AS SEPARATE DONEES

(13)21 Background

(1) Since the enactment of the gift tax law in 1932, it has been the position of the Service that contributions to a political campaign are taxable transfers for purposes of the gift tax imposed by IRC 2501. Any individual who makes a contribution in excess of $3,000 in any calendar year to a political candidate, party, or organization is subject to the gift tax filing requirements of IRC 6019.

(2) The $3,000 exclusion is allowable only for contributions to separate bona fide committees or organizations when in fact, rather than form, these committees were the actual recipients of the contributions.

(13)22 Determination

(1) Generally, political organizations will be recognized as separate donees for purposes of the annual gift tax exclusion, and contributions to them will be subject to the exclusion, if the following requirements are met as cited in Rev Ruls 72-355 and 74-199.

(a) The contribution was actually made to the particular committee claimed to be the donee. If the contribution was made through an agent, the agent must have been that of the donor;

(b) The persons named as officers of the committees were actually its officers;

(c) The committee had a bank account and/or records evidencing the receipt of the contribution in question;

(d) The committee disbursed contributions for campaign purposes (including transfers to other organizations for such purposes); and

(e) The committee filed whatever Federal and State reports were required of it in respect to its activities, receipts, or disbursements, and that the receipts and disbursements shown on such reports are consistent with the receipts and disbursements asserted by the contributor and the committee.

(2) However, when political organizations have essentially the same officers and supported candidates, and no substantial independent purpose, the organiza-

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tions will be treated as one, and gifts to them by an individual will be aggregated for purposes of IRC 2503(b).

(3) The officers or supported candidates will not be deemed to be essentially the same if at least one-third of the officers or candidates are different in each of the committees.

(4) Decisions regarding the validity of a committee should be made on the basis of the facts and circumstances existing in that case at the time of the contribution.

(5) The following examples illustrate the circumstances when a political organization will generally be recognized as a separate donee for gift tax purposes. In each example assume that D is the senatorial candidate in State M of the Republicrat Party, that E is the Republicrat candidate for governor of State M, that F is the Republicrat candidate for President, and that A is an individual.

(a) Example 1. A makes a contribution of $3,000 to each of the following political committees: Citizens for the Election of D, Lawyers for D, and Republicrats for D. Each committee is a separate organization and has different officers. Under these circumstances, the committees will be recognized as separate donees and the contributions made to them will not be aggregated for purposes of IRC 2503(b). Accordingly, no gift tax return is required with respect to these contributions.

(b) Example 2. A contributes $3,000 to each of the following committees: Republicrats for D, Republicrats for D and E, and Republicrats for D and F. Each committee is a separate organization and has different officers. Under these circumstances, the committees will be recognized as separate donees and the contributions made to them will not be aggregated for purposes of IRC 2503(b). Accordingly, no gift tax return is required with respect to these contributions.

(c) Example 3. The facts are the same as in Example 2, except that the committees have the same officers. Since the committees do not support essentially the same candidates they will be recognized as separate donees and the contributions made to them will not be aggregated for purposes of IRC 2503(b). Accordingly, no gift tax return is required with respect to these contributions.

(d) Example 4. A contributes $3,000 to the Republicrats for D and $3,000 to the Republicrat lawyers for D. Each committee has a Chairman and a Treasurer. J serves as Chairman of both committees; K is Treasurer of one committee; and L is Treasurer of the other committee. Since the committees do not have essentially the same officers; contributions to the committees will not be aggregated for purposes of IRC 2503(b). Accordingly, no gift tax return is required with respect to the contributions.

(e) Example 5. G is a candidate for election as a delegate to the Republicrat National Convention from State M and is also a candidate for election to the State House of Representatives. A makes a contribution of $3,000 to the Committee to Elect G Delegate to the Republicrat National Convention from State M and a contribution of $3,000 to the Committee to Elect G to the State House of Representatives. Since these committees have a substantial independent purpose, they will be recognized as separate donees and the contributions will not be aggregated for purposes of IRC 2503(b). Accordingly, no gift tax return is required with respect to these contributions.

(f) Example 6. A contributes $3,000 to each of the following committees: Committee for the Election of D, Citizens for the Election of D, and Republicrats for the Election of D. Each committee has independent bank accounts, filed the necessary reports. Each also has the same officers, supported candidates, and the committees have no substantial independent purpose. The committees will not be recognized as separate donees and the contributions by A will be aggregated for purposes of IRC 2503(b). Accordingly, a gift tax return is required with respect to these contributions.

(13)23 Federal Election Campaign Act

Prior to Public Law 93-443 effective for tax periods after December 31, 1974, the Federal Election Campaign Act of 1971, which became effective on April 7, 1972, covered all elections for federal office and also includes political party conventions and primary elections for the selection of delegates to national conventions. The major features of the 1971 act are

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summarized below.

(1) A "political committee" is any committee, organization or person that accepts contributions or makes expenditures in excess of $1,000 in connection with a federal election.

(2) Every political committee must file within 10 days after its organization a registration statement setting forth its organization.

(a) 1. Names and addresses of officers.

(b) 2. Relationships to other organizations.

(c) 3. Purposes of the committee.

(d) 4. Custodian of committee records.

(e) 5. Names and party of candidates or individuals supported by the committee.

(f) 6. Other details of the committee's organization and operation.

(3) This statement must be filed with the Comptroller General for committees supporting Presidential candidates.

(4) Senatorial candidates must file with the Secretary of the Senate.

(5) House candidates file Form <u>HR-3</u> with the Clerk of the House.

(6) Reports are designed to inform the appropriate supervisory officer of the committee's existence. If the committee disbands, it must notify the appropriate supervisory officer. The notification should include a statement as to the disposition of residual funds or debts.

(7) Every political committee shall have a chairman and treasurer, one of which must authorize each expenditure. The treasurer is responsible for compiling and maintaining records of all contributions and expenditures, including the following for all contributions in excess of $10 and for all expenditures.

(a) Name (for contributors the name usually used for business purposes).

(b) Address (for contributors the residence mailing address, including ZIP code).

(c) Occupation (identified by title or type of work).

(d) Principal place of business, if any. (Identified by the full name of the contributor's employer and the city of employment.)

(e) Amount and date of contribution or expenditure.

(8) On the 10th of March, June, and September each year, and on the 15th and 5th days preceding an election, and January 31st following an election, all political committee treasurers and candidates must file with the appropriate supervisory officer reports of receipts and expenditures on forms prescribed by that officer. Copies of these reports must be filed with the Secretary of State of the appropriate states. Each report must disclose:

(a) the amount of cash on hand at the beginning of the reporting period;

(b) the names and addresses (occupation and principal place of business) of persons making aggregate contributions (including the purchase of tickets for dinners and similar fund-raising events) or receiving expenditures in excess of $100 within the calendar year, together with the amounts and dates;

(c) the total sum of all other contributions during the reporting period not reported under the above paragraph;

(d) details involving any transfers of funds;

(e) details of all loan arrangements in excess of $100;

(f) the total amount of proceeds from the sale of tickets at fund-raising events, mass collections at such events, and sales of campaign paraphernalia like buttons and pins;

(g) amounts and the nature of debts and obligations owed by or to the committee and a continuous reporting of these obligations after the election until they are extinguished; and

(h) any other information required by the supervisory officer.

(9) There is no legal limit on the amount that individuals may contribute to a candidate or political committee. There are limitations, however, on expenditures which a candidate for Federal elective office may make from his personal funds or the personal funds of his immediate family, which includes the candidate's spouse, and any child, parent, grandparent, brother or sister of the candidate, and their spouses. The legal limits are

(a) $50,000 for a candidate for the Office of President or Vice President

(b) $35,000 for a candidate for the office of Senator

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(c) $25,000 for a candidate for the office of Representative in, or Delegate or Resident Commissioner to, the House of Representatives.

(10) Corporations and unions are prohibited from using their funds for active electioneering directed at the general public. However, certain communications by corporations and unions to their stockholders and workers are presently permitted. Corporations and unions are permitted to solicit contributions into a separate segregated, political fund, provided that money solicited for the fund is secured voluntarily.

(11) For taxable years or periods beginning after December 31, 1974, see Public Law 93-443.

(13)24 <u>Purpose of Examination</u>

In political contribution issue examinations the objectives of the examiner will be to ensure:

(1) that the applicable gift tax provisions of the law including the $3,000 exclusion are applied to contributions to bona fide committees or organizations;

(2) that in fact, as well as in form, these committees were the actual recipients of the contributions (If the contribution was made through an agent, the agent must have been that of the donor.); and

(3) that the political committee was actually a valid, separate organization.

(13)25 <u>Examination Procedure</u>

Approval will be required from the National Office (CP:A:P:S) before any contact is made with a national political committee. This approval will serve to avoid duplicate contacts with the same political committee whose donors may be under audit in several districts.

(1) Verify that the committee meets the one-third separateness test (candidates or officers) spelled out in Rev Rul 72-355.

(2) Verify the persons named as officers of the committee are actually its officers.

(3) Verify that the committee had a bank account and/or records evidencing the receipt of the contribution in question.

(4) Verify that the committee disbursed the contribution for campaign purposes (including transfers to other organizations for such purposes).

(5) The following techniques may be pursued in identifying questionable local campaign committees.

(a) Contact with state party headquarters

(b) Inquire through Office of Secretary of State where the committee is located regarding any reports filed

(c) Examine state incorporation records for charter application

(d) Request Form 4909, Declaration of Campaign Committee, from the service center.

(6) Once the identity of the officers of a committee has been established, they must be interviewed. The following information sources may aid you in locating committee officers.

(a) Committee charter (lists all officers and their addresses).

(b) City directories (identifies occupation, address and telephone number).

(c) Phone directory.

(d) Criss-cross directory (for finding phone number if address is known).

(e) Bank signature card for committee's bank accounts.

(f) Form 1, Registration Form and Statement of Organization for a Committee.

(7) Evaluating information gathered, the examiner will:

(a) Summarize on a daily basis results of interviews conducted to ensure uniform interpretation of the data;

(b) Summarize the reasons and facts for concluding that a committee is or is not valid for gift tax purposes.

(8) Field offices and National Office will follow IRM 4091 in disseminating information to the appropriate field offices.

(9) National Office will be contacted before using a summons to obtain information concerning the finances of a political organization as required in IRM 4022.3.

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(13)30 GIFT TAX ON POLITICAL CONTRIBUTIONS

(13)31 Background

(1) Any individual who makes a contribution or gift in excess of $3,000 in any one calendar year to a political party, bona fide committee or to a candidate for public office must file Form 709, Quarterly Federal Gift Tax Return. To the extent that such a contribution or gift is in excess of $3,000, it may be applied against all or any unused portion of the $30,000 lifetime specific exemption authorized by IRC 2521.

(2) The gift splitting provisions of IRC 2513 provide that contributions or gifts made by a husband or a wife to a third party are considered as made one-half by each spouse under specified conditions. Thus, in such a situation, a gift of $6,000 can be made without any portion of the gift being applied against the specific exemption.

(3) The term "contribution" includes a gift, subscription, deposit, in the form of money, or anything of value, and includes a contractual promise, or agreement, to make an expenditure whether or not legally enforceable. A loan or advance may be a gift when forgiven or at the time of the loan if not bona fide.

(13)32 Application to Political Contributions

(1) For gift tax purposes, political organizations, rather than the candidates they support, are generally considered the donees of political contributions, regardless of whether the legal form of the organization is a trust for the benefit of the political organization, a corporation or some other entity under state law. Political organizations, however, must be distinguished from private trusts which are essentially for the personal benefit of designated individuals. The beneficiary of such a trust, rather than the trust itself, is considered to be the donee of transfers to the trust.

(2) If the committees to which these contributions are made are not bona fide separate organizations and the benefits go directly to a bona fide committee, the amounts contributed will be aggregated to permit only one $3,000 exclusion. If a committee is not bona fide and the benefits go directly for the candidate, then only one $3,000 exclusion is permitted.

(3) In determining the amount permitted as an exclu-

sion in the case of a contribution made to a political organization, only one $3,000 exclusion is permitted, even though the personal campaigns of several individuals may be benefited by the contribution made to such organization.

(4) When unexpended funds of a political committee are transferred to the U. S. Government, and the transfer is not a diversion causing the amount transferred to be includable in gross income then it is not subject to the gift tax. Neither the candidate, the committee, any member of committee, nor any contributor is entitled to a charitable contribution deduction under IRC 170 for the amount thus transferred.

(13)33 Examinations

(1) In the gift tax area, as well as income tax, the examiner should be aware of the various forms that gifts or contributions by individuals may take --

(a) donated services during normal business hours or paid overtime by employees of a business or corporation

(b) donations of stock and other property

(c) forgiven loans to the political organization

(d) services furnished to the political organization by third parties and billed to the donor

(e) bonuses paid to employees, who contribute the after-tax amount to the political organization

(f) expense account items reimbursed to an employee for his contributions to the political organization

(g) donations to political organizations disguised and deducted on business and corporation tax returns as legal fees or advertising expenses

(h) committee expenditures for non-campaign purposes which would create gross income to the political organization

(i) overbilling a business for services rendered--the excess amount being funnelled to the political committee.

(2) Unless an amount transferred to a political candidate, party, or organization and designated as a loan has in fact been repaid, the designated loan could be a gift.

(3) Examiners should be aware of the possibility

that a contributor to the political organization might be acting as a nominee for someone else and that there may be a gift and/or income tax consequence to a third party. The source of the contribution also should be traced to see if it may have been a bonus or expense reimbursement from the employer. If deducted on a business or corporate tax return, disallowance could create an income tax liability to the employer.

(4) Many contributions to political organizations are in the form of appreciated property. Contributors of appreciated property generally realize no gain on the contribution; but, gain may be realized by the recipient of the appreciated property when it is sold. This is because the donee's basis in the appreciated property is that of the donor. The gift tax liability of the donor for this contribution of appreciated property is determined by the fair market value of the property. The net gain realized by the political organization on sales of contributed appreciated property is computed in accordance with the applicable provisions of the Code relating to basis including gift tax paid by the donor, holding period, and amount realized. Expenses incurred on the sale of appreciated property are deductible in determining the gain realized on such a sale. Gain realized on the sale of contributed securities before October 3, 1972, is not includable in the political organization's gross income under Rev. Ruls. 74-21 and 74-23.

(5) If the contribution of appreciated property is made through an agent, the agent must be that of the donor. If the donor's agent sells this appreciated property, realizing a gain, and then contributes the proceeds to the political organization, it is the donor who realizes the capital gain.

(6) The examiner may encounter a local political organization (other than organizations supporting presidential candidates), which has not already been examined to determine its validity for purposes of receiving contributions. In these instances, at the discretion of the individual examiner, this local political organization may be examined to determine whether it is a separate, bona fide organization for gift tax purposes. If the organization is found to be invalid, then the gift tax provisions may apply to the contributors. If there are out-of-district contributors, their names, addresses, and the amounts contri-

buted will be disseminated as required in IRM 4091.

(7) Regular gift tax examination procedures will be followed in conducting these examinations. The special procedures for political contribution issue examinations listed in IRM 4316.24 will also be followed.

(8) The disclosure of information gathered through interviews with third parties, concerning the Service's examination of political committees, should be decided by the examining agent on a case-by-case basis. At a minimum, we believe the taxpayer should be furnished sufficient information about the examination of the committees, so as to inform the taxpayer as to the basis of any proposed deficiency against him. However, the information should not include informant identity information or other confidential information, the disclosure of which could interfere with our responsibility to administer the tax laws.

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(13)40 INCOME TAX IMPOSED ON POLITICAL ORGANIZATIONS

(13)41 Background

(1) A committee organized and operated exclusively to engage in activities, the purpose of which is to influence the nomination or election of individuals to public office, is not one of the organizations that may be exempt from Federal income tax under IRC 501. Nor is such an organization covered by any other provision of the Code which exempts it from Federal Income tax.

(2) Although it has been the long-standing practice of the Service not to require political parties and committees to file income tax returns, there are no specific provisions to that effect in the Internal Revenue Code. Therefore, the Service will require such entities to file appropriate tax returns but only for years after 1971.

(3) Unincorporated political parties or committees may be treated for tax purposes as associations taxable as corporations or as trusts (or possible partnerships) depending upon the application to the specific facts and circumstances of the standards developed for the classification of unincorporated organizations.

(13)42 Filing Requirements

(1) The requirements for filing Federal income tax returns by political organizations and committees are stated in Rev. Rul. 74-21, 1974-2, IRB 6 and Rev. Rul. 74-475, 1974-40, IRB 26.

(2) Generally, unincorporated political organizations and committees will be considered associations taxable as corporations under IRC 7701(a)(3). Such organizations will be required to file Form 1120, U.S. Corporation Income Tax Return, if taxable income computed under existing law exceeds $100.

(3) Such returns are due March 15 following the close of the taxable (calendar) year, subject to the granting of the appropriate extensions of the due date. For calendar 1972 and 1973 returns, the penalties for failure to file a return and failure to pay the tax under IRC 6651 will not be asserted provided appropriate returns are filed, and the taxes due are paid, on or before Septenber 15, 1974. (News Release, IR-1391, April 11, 1974)

(4) A committee which terminated in 1972 upon the close of its campaign activities and had no funds

remaining or obligations outstanding must still file a Form 1120 for 1972 by September 15, 1974, if it had taxable income over $100 as computed under existing law.

(5) A committee which continued to exist in 1973 to handle surplus funds, pay unpaid obligations, and carry on other activities, but received no political contributions, must file a Form 1120 for 1973 by September 15, 1974, if it had taxable income over $100 as computed under existing law.

(6) Announcement 74-85 1974-37, IRB 26, contains questions and answers regarding filing requirements and preparation of returns: This announcement, however, must be read in the light of Rev. Rul. 74-475.

(13)43 Income and Deductions

(1) The gross income of a political organization or committee is computed in accordance with Rev. Rul. 74-21. The gross income of such organizations includes:

(a) interest;

(b) dividends; and

(c) net gains from the sale of property after October 2, 1972 (computed according to the applicable code provisions such as those relating to basis (including gift tax paid by the donor), holding period, and amount realized.

(2) Campaign contributions are not includable in gross income.

(3) Expenditures for campaign purposes are not deductible. Expenses incurred for fund-raising activities are part of the costs of obtaining political contributions and are not deductible.

(4) Expenses directly attributable to activities undertaken for the production of interest and dividend income are deductible.

(5) Expenses attributable to the sale of property are to be taken into account in determining gain or loss realized on the sale of securities.

(13)44 Assignment of Returns

Assignment of returns will be made in accordance with the appropriate procedures in Manual Supplement 42G-308, CR 41G-102, dated March 18, 1974, and Amendment 1, dated July 10, 1974, and Manual Supplement 42G-313, CR 48G-220, CR 93G-143, CR 96G-15, dated August 5, 1974.

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(13)45 Examination of Returns

(1) Appointments for examinations of political organizations and committees should be made as outlined in Chapter 400 of IRM 4231, Audit Technique Handbook for Internal Revenue Agents. If the committee officers cannot be located, after a search including contact with state and county parties, the case should be discussed with the group manager and a decision rendered concerning the validity of the committee based on the facts and circumstances.

(2) The examination should be conducted where the organization's records are maintained.

(3) Policy Statement P-4-4 requires that examiners "will ascertain during the examination of any tax return whether the taxpayer is filing or has filed all of the other Federal tax returns he is required to file." Package audit procedures in IRM 4034 should be followed during the examination of the tax returns of political organizations.

(4) Examiners should be alert to unpaid or excused (forgiven) liabilities of political organizations. The creditor may have taken a bad debt deduction on a corporate or business return. IRC 271 prohibits bad debt deductions other than a bank making a loan in accord with its usual commercial practices.

(5) Examinations of these returns should be quality tax audits and uniform throughout the various districts. At a minimum, the examination will include --

(a) Probe for unreported income. Determine whether amounts received as contributions are political contributions or income, such as compensation for services actually rendered or proceeds from the sale of property.

(b) Determine whether interest, dividend income and capital gains were properly reported.

(c) Determine whether any committee funds were diverted to the personal use of any taxpayer. Ascertain whether the committee may have diverted funds, contributed for political purposes, to purposes outside the stream of campaign activities, that would result in gross income to the committee or other person.

(d) Determine whether deductions claimed are allowable.

(e) Examiners, during the course of the audit, should be alert to the possible need for assertion of a transferee liability.

(f) Consider the following documents in examining the committee returns:

1. Rev. Rul. 74-475 1974-40, IRB 26. Concerning the filing requirements of political parties and committees, see Rev. Rul. 74-21.

2. Rev. Rul. 74-21 1974-2 IRB 6. Provides that taxable earnings (interest income, dividends and gains on sales of securities) from campaign contributions, as well as deductible expenses directly related to above income, must be reported by the committee on a U.S. Corporate Income Tax Return, Form 1120.

3. Rev. Rul. 71-449 1971-2, CB 77. Regarding the diverting of campaign funds to the personal use of the political candidate.

4. Rev. Proc. 68-19 1968-1, CB 810. Factors considered by the Service in determining the taxability of political funds received and disposed of by, or on behalf of, political candidates.

(13)46 Records

(1) Refer to section (13)23 for the records to be kept by treasurers of political organizations required by the Federal Election Campaign Act of 1971.

(2) The Comptroller General's regulation 16.2(b) requires that these detailed records shall be kept for a period of 4 years.

(3) In addition, the record-keeping requirements imposed by IRC 6001 apply to political organizations.

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(13)50 INCOME TAX IMPOSED ON CANDIDATES

(13)51 Filing Requirements

(1) The requirements for filing Federal income tax returns by political candidates with respect to campaign funds under his exclusive personal control which were maintained separately from his personal funds, are stated in Rev. Rul. 74-23, 1974-2, IRB 8.

(2) The political candidate must file Form 1041, U. S. Fiduciary Income Tax Return, if the income exceeds $100 or gross income is $600 or over. Such return is due April 15 following the close of the taxable (calendar) year during which the candidate held funds, subject to the granting of appropriate extensions. For calendar 1972 and 1973 the penalties for failure to file a return and failure to pay tax under IRC 6651 will not be asserted provided the appropriate returns are filed, and the taxes due are paid, on or before September 15, 1974 (News Release, IR-1391, April 11, 1974).

(3) If a political committee terminates before the end of 1972, and transfers surplus political campaign contributions to the candidate's separate bank account for political contributions, a Form 1041 may be required to be filed by the person responsible for the bank account, if its income exceeds $100 or gross income is $600 or over.

(4) No return is due by a candidate with respect to surplus campaign contributions in a bank account maintained separately from his personal funds, unless taxable income exceeds $100.

(5) Announcement 74-85, 1974-37, IRB 26 contains questions and answers regarding filing requirements and preparation of returns. This announcement, however, must be read in the light of Rev. Rul 74-475.

(13)52 Income and Deductions

(1) Generally, the tax treatment of funds received and disbursed by a political candidate is the same as for funds of a political organization or committee. However, see section (13)53 for a discussion of the tax treatment of campaign funds diverted to personal use by a political candidate.

(2) Net gains from the sale of property after October 2, 1972, are includable in gross income as well as interest and dividends received.

(3) Sections (13)43(2) through (13)43(5) also apply in determining the income and deductions of political candidates.

(4) In addition, a deduction for a $100 exemption is allowable on Form 1041.

(13)53 <u>Campaign Funds Diverted to Candidate's Personal Use</u>

(1) The taxability of political funds received and disposed of by or for political candidates is discussed in Rev. Proc. 68-19 1968-1, CB 810.

(2) Political funds are not taxable to a political candidate by or for whom they are collected, if they are used for expenses of a political campaign or some similar purpose. Any amount diverted from the channel of campaign activity and used by a political candidate for any personal purpose is income taxable to the candidate for the year in which the funds were diverted.

(3) Unexpended balances of political campaign contributions that are repaid to contributors are neither expended nor diverted and are not includable in the candidate's gross income. Since it may be impractical to return the unexpended amounts to the contributors, the transfer of such amounts to the United States Government for general purposes is considered to be an expenditure to carry out the purpose of the political committee and not a diversion for the personal benefit of the candidate or some other person. See Rev. Rul. 74-23.

(4) Political funds expended by a political candidate, or by a political organization or committee which accepts contributions on behalf of such candidate will be considered for campaign or similar purposes if they are:

(a) utilized for generally recognized campaign expenses, regardless of when such expenses were incurred

(b) contributed to the national, state or local committee of the candidate's party

(c) used to reimburse the political candidate for out-of-pocket campaign expenses paid by him during a current campaign, or, if he is not currently campaigning, during his last previous campaign.

(5) Detailed substantiating records must be kept by a political candidate or other custodian, so the candi-

date can account accurately for the receipt and disbursement of political funds. Disbursements by the political committee will be included in the income of the political candidate in the absence of a showing that the funds were used for campaign or similar purposes or repaid to known contributors. If political funds are commingled with the personal funds of the political candidates, so as to render tracing or identification impracticable, the political funds will be presumed to have been diverted to personal use at the time so commingled.

(13)60 INCOME TAX IMPOSED ON CONTRIBUTORS

(13)61 Background

(1) Although limited credits or deductions for certain political contributions are allowed on individual income tax returns under IRC 41 or 218, no business credits or deductions are allowed on individual or corporate returns for such expenses.

(2) Section 610 of Title 18 makes it unlawful "for any corporation . . . to make a contribution or expenditure in connection with any election at which Presidential . . . electors . . . are to be voted for, or in connection with any primary election or political convention or caucus held to select candidates for any of the foregoing offices, or other person to accept or receive any contribution prohibited by this section." The statute further provides that "every . . . officer or director of any corporation . . . who consents to any contribution . . . and any person who accepts or receives any contribution, in violation of this section, shall be fined . . . or imprisioned . . . or both . . . ."

(3) IRC 276 disallows deductions for certain indirect contributions to political parties.

(4) IRC 271 prohibits deductions for write-offs of debts owed by political parties other than a bank making a loan in its usual commercial practices.

(5) It is not the responsibility of employees of the Internal Revenue Service, to develop Title 18 issues. These violations were listed in Section (13)14. However, if during the course of these investigations, evidence of violations of the Corrupt Practices Act (18 U.S.C. 610-13) are uncovered, the information should be routed through channels to the Assistant Regional Commissioner (Intelligence) who will forward the information to the Director, Intelligence Division, National Office.

(13)62 Examination of Returns

(1) Examiners have been alerted in IRM 426(22) and IRM 42(11)6, as well as in Manual Supplement 42G-313, CR 48G-220, CR 93G-143, CR 96G-15, dated August 5, 1974, to the possibility of schemes being used to deduct political contributions disguised as business expenses under such categories as "legal fees," "advertising," "printing," "dues and subscriptions," "bonuses," etc.

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The provisions in Chapter (12)00 of IRM 42(11)8, Handbook for Field Audit Case Managers, which provide for close coordination with the Intelligence Division in cases containing these issues, should also be followed.

(2) In addition to contributions made directly to political organizations, contributions may also be made indirectly by business organizations in disguised form and then deducted. Some of these indirect methods are:

(a) cash or checks paid to the political organization through a conduit

(b) loans advanced to the political organization through a conduit

(c) use of the business' assets by a political candidate, committee, or party

(d) employees' services furnished during normal business hours or paid overtime by the business organization for a political candidate, committee, or party

(e) payment by the business organization of the expenses incurred by a political candidate, committee, or party.

(3) Examiners should be aware of the possibility that the contributor to a political organization may have been acting as a nominee for someone else and that there may be gift or income tax consequences to a third party. The source of the contribution should be traced to see if it may, in fact, be a bonus or expense reimbursement from the contributor's employer. If deducted on a business income tax return, disallowance could create an income tax liability to the employer.

(4) Numerous schemes are used by businesses and corporations to disguise indirect contributions made to political candidates, parties, or committees, as legitimate business expenses deductible on the business or corporation income tax returns. In some instances there may be collusion among the contributor, the conduit used, and the recipient political organization. Some of the detected schemes are as follows.

(a) Domestic Area

1. Corporate Bonus or Salary

a. Officers and/or key employees are paid additional compensation based on their promise that they will contribute either a percent of the bonus or the net amount (net of income taxes) as a political contribution.

b. The contribution may be paid directly to the political organization without using the employees as a conduit.

2. Employee Contributions

a. A cash contribution is made by the corporation or individual business in the names of their employees, or their subsidiaries' employees. These employees are sometimes unaware of the use of their names.

b. Officers and/or key employees of the business or corporation may pay the expenses incurred by political candidates or organizations through the use of their reimbursable business expense accounts. These accounts can also be padded to generate cash for slush funds or direct contributions by the individual involved.

c. Employees may also receive advances of funds from the business or corporation through these business expense accounts. These advances may remain outstanding or may be excused by the business or corporation without the employee justifying it by submitting vouchers or statements of reimbursable business expenses.

3. Conduit

a. Suppliers "overbill" the contributing individual business or corporation which does some legitimate business with these suppliers. The amount in excess of the correct billing (for actual supplies) corresponds with the amount of the political contribution the contributing business entity has agreed to give to the particular candidate's campaign. The suppliers "kickback" these overbilled amounts to public relations firms or other third parties performing services for the candidates. This practice has also been found to have been used by vendors of professional services, such as attorneys, consultants, and accountants.

b. Contributions are paid directly to advertising firms which furnish billboard advertising, printing, etc., for political campaigns. Invoices for advertising or printing are furnished to the contributors, but no mention is made on the invoices as to the political nature of the advertising or printing.

c. Contributions are paid directly to public relations firms in payment of invoices for "public relations services," "advertising consultants," etc.

d. Contributions are paid to fictitious "trade associations" which are nothing more than bank accounts established for the sole purpose of collecting and disbursing political campaign funds. These bogus groups sometimes submit invoices to the contributing corporation for "dues and subscriptions" in the amount of the donation.

e. Contributions are paid to law firms which act as conduits by depositing the funds in trustee accounts from which they are disbursed to the political campaign committee designated by officers of the contributing corporation.

4. Loan of Employees
Key employees or officers work directly during normal business hours or paid overtime for the political entity but are paid by the individual business or corporation. This scheme may also use vendors as conduits.

5. Use of Business Assets and Facilities
The individual business or corporation will provide the political entity with the use of its assets and facilities at little or no cost.

6. Corporate Overcapitalization
Real or personal property is acquired by the business entity for more than fair market value. The excess is rebated or kicked back and used by the promotor of the scheme to make the contribution to the political organization.

7. Corporate Loan
The corporation (or individual business) loans funds to either its officers or employees who, in turn, loan the cash to the political entity. The loan may even be made directly to the political organization.

8. Payment of a Political Organization's Expenses by an Individual Business or Corporation
A supplier of services to both the political entity and the business entity bills the business entity for expenses incurred by the political entity. These charges then appear as normal operating expenses of the individual business or corporation.

(b) Foreign Area

1. The usual practice in schemes in the foreign area is for the domestic parent corporation to use a foreign subsidiary, a foreign consultant, or a foreign bank account to "launder" funds so that cash could be generated and repatriated back to the United States to provide a slush fund for contributions to various

political campaigns and other purposes.

2. Cash fund generated from rebates by foreign suppliers (similar to the domestic scheme).

3. Special fund generated by capitalizing a fictitious bill to the undeveloped leasehold account of the parent corporation's foreign subsidiary.

4. Loans by a domestic corporation to its foreign subsidiary with the money being funneled back to the parent and used to make political contributions.

5. Slush fund generated by the use of fictitious invoices for foreign insurance. The expenditures are carried on the company's books as pre-paid insurance expense. Funds are deposited in the company's numbered Swiss bank account and subsequently withdrawn in Switzerland, and carried back to the U.S. The political contributions are then made by a cashiers check or by reimbursing a corporate official who makes a contribution by cash or personal check in either his or his wife's name.

6. Slush fund generated by rebates from a foreign legal consultant. The foreign legal consultant, who also performed legitimate consulting services for the U. S. corporation, overbills the company and then transfers the money back to the treasurer in cash.

7. Cash fund generated by the use of a contingency fund in the U.S. parents foreign subsidiary.

(5) Examiners should be aware of the possibility that one or more of these schemes may be used by some taxpayers. The agent should realize that there are other schemes, still undetected, being used to accomplish the same subterfuge.

(6) When information is discovered that is related to a political contribution case in another district, the procedures of IRM 4091 should be followed.

(7) The following list includes many of the entities used as conduits to make political contributions:

(a) insurance Companies

(b) accounting Firms

(c) lobbyists and/or their staff-registered and nonregistered.

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(d) legal Firms
(e) consultants
(f) advertising Firms
(g) public Relation Firms
(h) trade Associations

(8) Laundering is a means of disguising the source of funds by various transfers among persons or entities with the intent of losing its original identity.

(9) Conduits are established by a promoter, who may be a corporate officer, employee, or even the solicitor. His objective is to devise a scheme to generate funds for a political contribution and usually to provide a tax deduction for the contributing entity. Improper capitalization of expenses is a means of generating cash and can provide the contributor with a reduction in federal income tax. Prior voluntary disclosures have identified the following areas:

(a) corporate acquisitions
(b) leasehold development
(c) equipment purchases

(10) Examiners should be alert to the provisions of IRC 271, which prohibits any bad debt deduction to any taxpayer (other than a bank) by reason of the worthlessness of any debt owed by a political party. Regulations 1.271-1 provides that the bad debt deduction is not allowable, even though the debt results from services rendered or goods sold by the taxpayer.

(a) In the case of a bank, no deduction is allowed unless the bad debt was incurred in accordance with its usual commercial practices. Thus, if a bank makes a loan to a political party not in accordance with its usual commercial practices but solely because the president of the bank has been active in the party, no bad debt deduction will be allowed with respect to the loan.

Attachment -- Cont. (33) to MS 42G-319, CR 43G-14

(13)63 Flow Charts

Chart 1

Analysis of cash contributions paid directly to a national party or committee by a partnership or individual

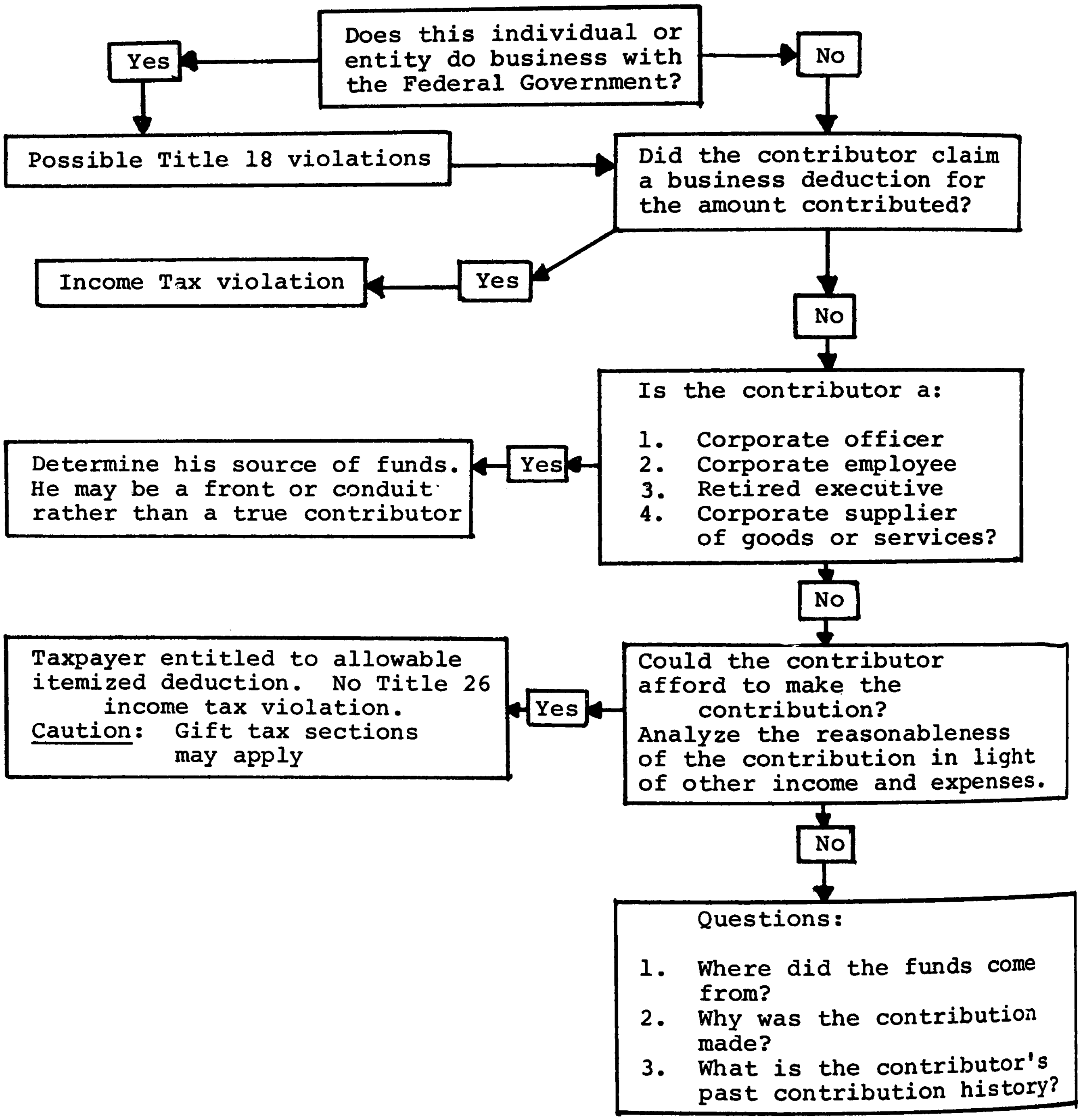

Chart 2

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Analysis of cash contributions paid directly to a national party or committee by a corporation

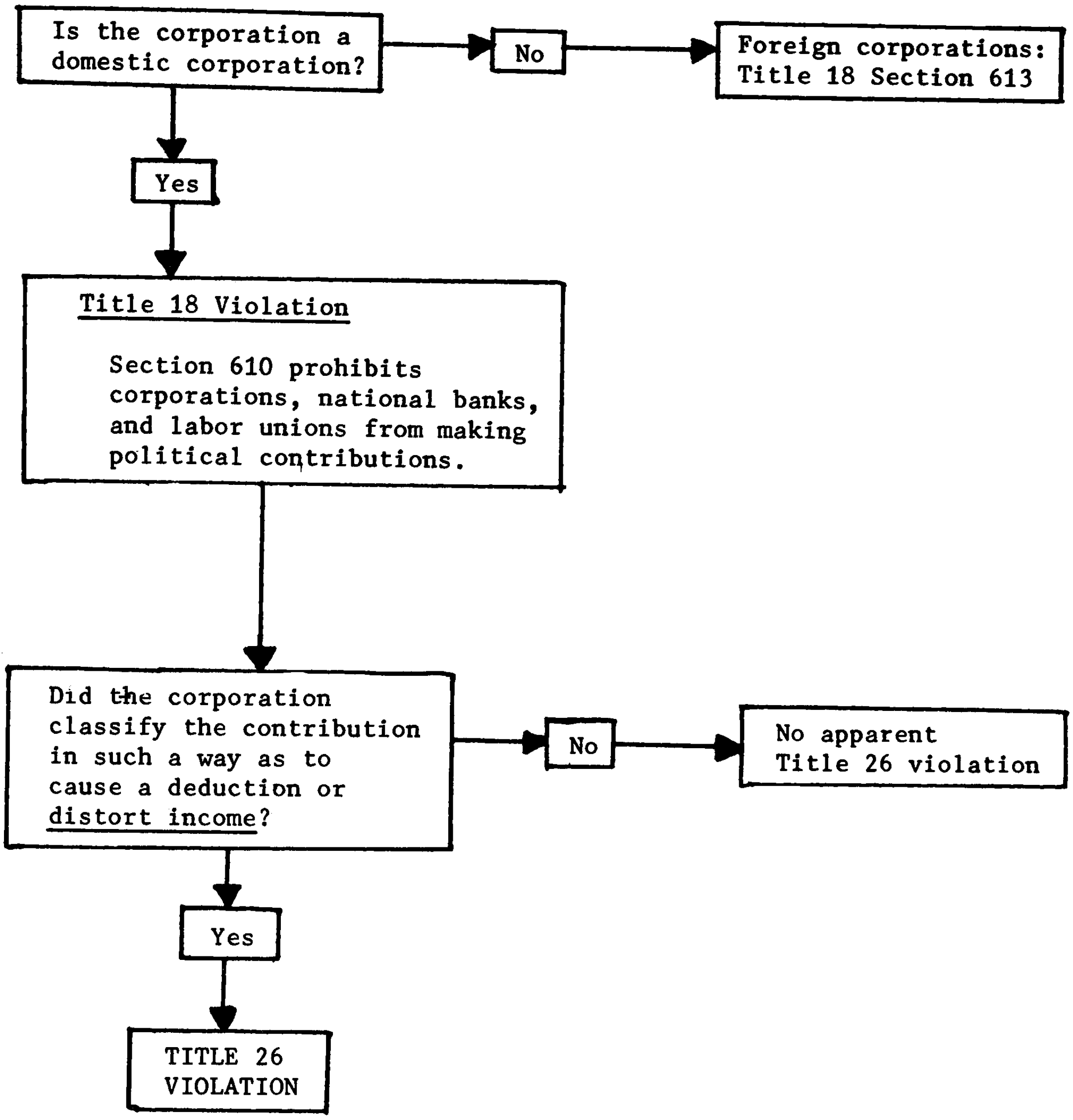


Chart 3

Indirect corporate political
contribution through a
corporate bonus

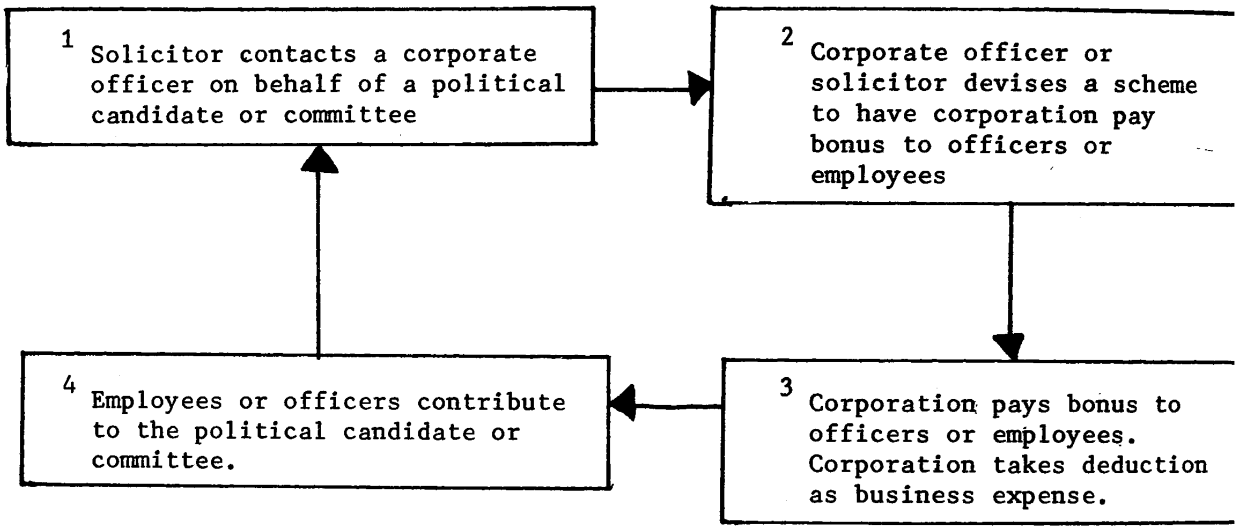


Chart 4

Indirect corporate political contribution using Kickbacks and rebates

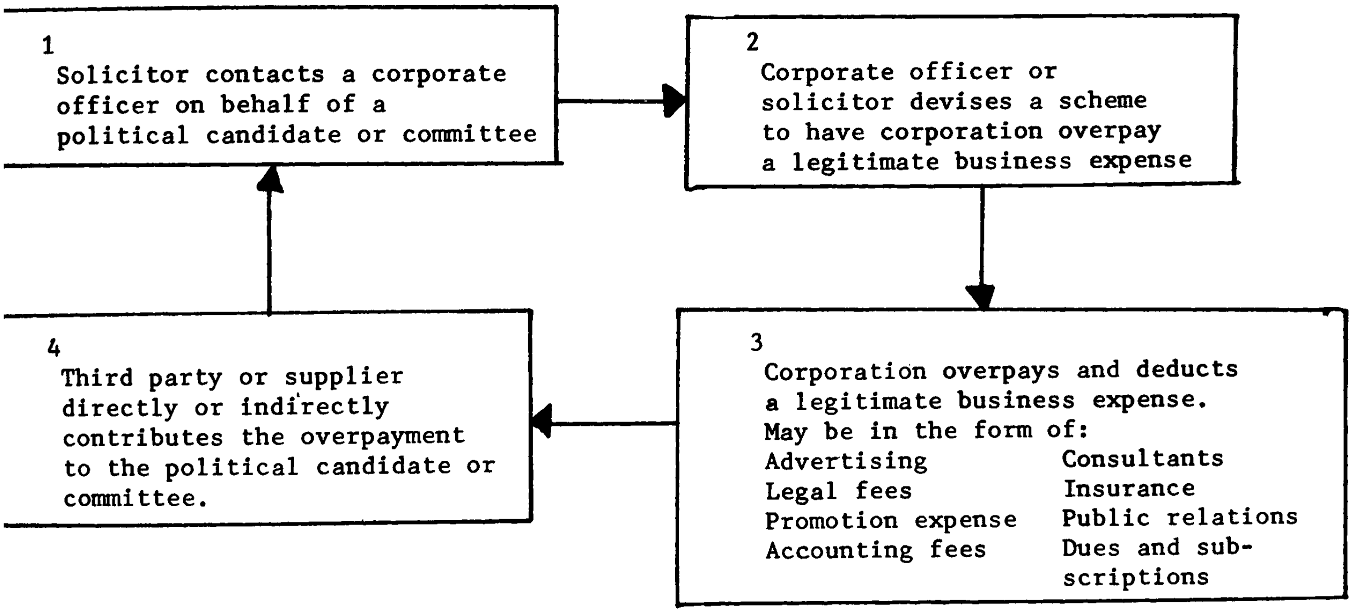


Chart 5

Indirect corporate political
contribution using overcapitalization

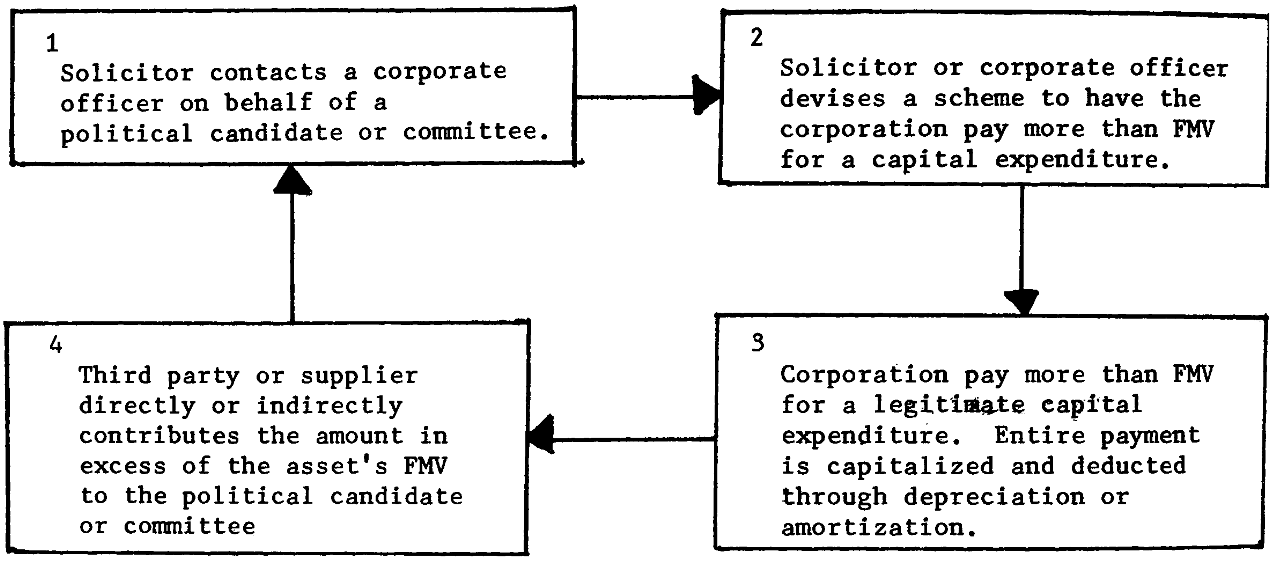
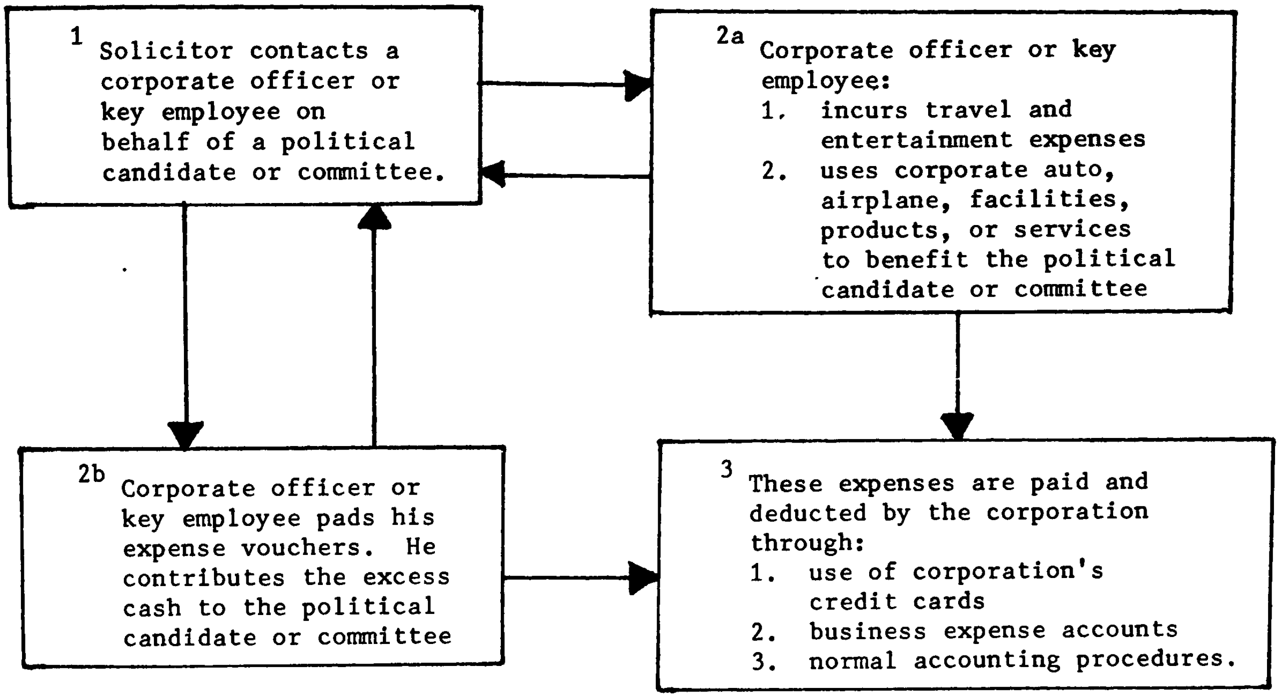


Chart 6

Indirect individual political contribution using
corporate business expenses



(13)70 IRS REFERENCES

(13)71 Internal Revenue Manual

(1) IRM 4022.3:(4), :(5) and (6)--Restrictions concerning the use of summons to obtain information concerning the finances of a political organization.

(2) IRM 4034--Package Audits

(3) IRM 4091--Dissemination of information to other field offices and service center audit divisons.

(4) IRM 426(22)--Political Contributions. Compliance checks for audit preplanning.

(5) IRM 42(11)6-- Team Audit Guidelines

(6) IRM 4316.24--Political Contribution Issue Examinations

(7) IRM 4350--Audit Technique Handbook for Estate Tax Examiners, Ch (26)14--Political Contributions

(8) IRM 4597--Collateral Examinations

(9) IRM 4810--Audit Reports Handbook, Chapter (12)30

(13)72 Manual Supplements

(1) ADP Handbook Supplement 335-211 (Rev. 1), dated September 2 1974--BMF Political Activity Cases. This Supplement provides manual instructions for receiving and processing Forms 1041 and Forms 1120, filed by political organizations and candidates.

(2) Manual Supplement 42G-308, CR 41G-102 dated March 18, 1974--Political Fund-Raising Activities. Prescribes guidelines for the implementation of Revenue Rulings 74-21 and 74-23, which deal with the income tax treatment and filing requirements of political organizations and candidates.

(3) MS 42G-308, Amend. 1, CR 41G-102, Amend. 1, dated July 10, 1974--Political Fund-Raising Activities. Revises the basic Supplement to alert the field to the automatic extensions granted to political committees.

(4) MS 42G-313, CR 48G-220, CR 93G-143, CR 96G-15, dated August 5, 1974 -- Political Campaign Contribution Compliance Project. Provides guidelines and procedures regarding the identification, examination and investigation of fund-raising activities of political parties and in connection with national and other related campaigns.

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(13)73 Revenue Procedure 68-19 (CB 1968-1, 810)

Factors considered by the Service in determining the taxability of political funds received and disposed of by or on behalf of political candidates.

(13)74 Revenue Rulings

(1) Rev. Rul. 59-57 (CB 1959-1, 626). Announces that a contribution made to a political party or to any candidate for public office is not allowable as a deductible contribution for gift tax purposes under IRC 2522.

(2) Rev. Rul. 71-449 (CB 1971-2,77). Regarding the diverting of campaign funds to the personal use of the political candidate.

(3) Rev. Rul. 72-355 (CB 1972-2, 532). Advises the public of the implications of the Federal gift tax on political campaign contributions. Examples illustrate the principles under which political organizations will be recognized as separate donees or treated as one organization for purposes of the annual gift tax exclusion under IRC 2503(b).

(4) Rev. Rul. 74-21 (IRB No. 1974-2, 6; dated January 14, 1974). Provides that income tax returns for the year 1972 are due from political parties by March 15, 1974 (Form 1120). (See IR-1391--(13)78(4), below).

(5) Rev. Rul. 74-22 (IRB No. 1974-2, 8; dated January 14, 1974). Holds that unexpended campaign contributions transferred to U. S. Government by an organized committee are not considered as income to the candidate.

(6) Rev. Rul. 74-23 (IRB No. 1974-2, 8; dated January 14, 1974). Provides that taxable earnings (interest income, dividends and gains on sales of securities) from campaign contributions, as well as deductible expenses directly related to above income, must be reported by the candidate on a U. S. Fiduciary Income Tax Return, Form 1041.

(7) Rev. Rul. 74-199 (IRB No. 1974-18, 15; dated May 6, 1974) states the evidentiary requirements that must be met in determining whether a contribution was in fact made to a bona fide political committee for purposes of the gift tax exclusion allowable under IRC 2503(b).

(8) Rev. Rul. 74-475 (IRB No. 1974-40; dated October 7, 1974). Concerning the filing requirements of political parties and committees described in Revenue Rulings 74-21 and 74-23.

(13)75 Information Notice No. 70-30, dated May 18, 1970
Worthlessness of debts owed by political parties (IRC 271).

(13)76 Announcements

(1) Announcement 73-84 (IRB 1973-33, 18; dated August 13, 1973). IRS policy statement concerning the tax treatment of political committees and parties and contributions of appreciated property.

(2) Announcement 74-85 (IRB No. 1974-37, 26; dated September 16, 1974). Published questions and answers regarding the filing requirements for political organizations, committees, and candidates, and preparation of Forms 1120 and 1041 by such entities. Also see Rev. Rul. 74-475.

(13)77 Technical Information Releases

(1) TIR-1125, dated December 17, 1971. Announcement that the Service will not follow the decision of the United States Court of Appeals for the Fifth Circuit in United States v. Stern, with respect to the application of the Federal gift tax to political campaign contributions.

(2) TIR-1179, dated June 21, 1972. Announces Rev. Rul. 72-355 and contains the text of this revenue ruling.

(3) TIR 1307, dated September 9, 1974. Announces Rev. Rul. 74-475 and contains the text of this revenue ruling.

(13)78 News Releases

(1) IR-1257, dated October 3, 1972. Statement regarding the contribution of appreciated property to committees of political parties.

(2) IR-1341, dated December 11, 1973. Statement concerning gift tax liabilities for contributions to political organizations, listing the evidentiary requirements that must be met in determining whether a contribution was, in fact, made to a bona fide political committee for purposes of the $3,000 gift tax exclusion.

(3) IR-1344, dated December 30, 1973. Announces Revenue Rulings 74-21, 74-22 and 74-23 along with a summary of these rulings and their texts attached.

(4) IR-1391, dated April 11, 1974,. Provides for an extension of time to file returns of political organizations until September 15, 1974.

EXHIBIT 12

manual
supplement

42G-313
48G-220
93G-143
96G-15

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Department of the Treasury Internal Revenue Service

August 5, 1974

Political Campaign Contribution Compliance Project

Initial Report Due Date:
August 26, 1974

urgent urgent urgent urgent urgent urgent

Section 1. Purpose

This Supplement provides guidelines and procedures regarding the identification, examination and investigation of fund-raising activities of political parties in connection with national and other related campaigns.

Section 2. Background

.01 Information has been received pertaining to the financial activities of individuals, corporations and political committees or organizations which were involved in various political activities. This information is being assembled at the National Office for dissemination to field offices for possible Audit examinations and Intelligence investigations.

.02 It appears there is a need for coordinated efforts on the part of Audit and Intelligence to identify alleged or apparent tax violations and schemes which may involve income tax, gift tax, pension trust and exempt organizations.

Section 3. Responsibilities

.01 National Office--A Special Project Manager has been designated in Compliance and is responsible for planning, coordinating and monitoring the project. He will provide a central point of contact for project inquiries and maintain necessary liaison with the various sources of information for the project. When all project information has been disseminated to field offices, the Audit and Intelligence Divisions will assume functional responsibility for the project.

.02 Regional Office--The ARC's (Audit) and (Intelligence) will be responsible for designating regional compliance project coordinators who will be responsible for the project within their functional areas. The compliance project coordinators will be responsible for:

1 Planning and coordinating activities related to the project with appropriate regional, district and service center personnel.

2 Orienting appropriate regional, district and service center personnel.

3 Developing additional guidelines and procedures considered necessary.

4 Ensuring that districts are promptly receiving project information and taking appropriate action to implement the project in connection with the examination or investigation of taxpayers.

5 Maintaining close liaison between functions to ensure that any new developments on political activitiy cases are being considered on a timely basis and to avoid jeopardizing a possible criminal case.

6 Coordinating examinations and investigations which concern local political committees that involve more than one district and/or region.

7 Monitoring and reporting on program progress, identifying problem areas and advising appropriate field and National Office officials of feasible solutions.

Section 3--Cont.

8 Providing adequate security over project documents and material, which should be controlled and distributed to IRS personnel only on a need-to-know basis.

.03 District Office--The Chiefs, Audit and Intelligence Divisions, or their designees will be responsible for:

1 Planning and monitoring the project.

2 Ensuring that the project cases are closely coordinated between Audit and Intelligence Divisions.

3 Maintaining control over project information and cases to ensure expeditious treatment.

4 Providing the regional office project coordinators with information and findings developed on local political committees and campaigns which affect other districts and regions.

5 Providing the region with information on the progress of project examinations and investigations.

6 Maintaining necessary records to measure progress of the project.

7 Ensuring adequate security over project documents and material, which should be controlled and distributed to IRS personnel only on a need-to-know basis.

.04 The Office of International Operations will be subject to all applicable procedures and guidelines contained in this document.

Section 4. Priority of Project

.01 Top Priority will be assigned to this project within the General Programs of Audit and Intelligence. Project information will be promptly associated with related returns and expeditious enforcement action taken to resolve any pending issues.

.02 All cases selected for examination and all Form 3949 (Intelligence Information Item) referrals will be placed in a red folder and the folder will be stamped "Compliance Project 384 Case." The responsibility for selecting returns for examination will be at the group level. All Project documents transmitted by Intelligence will be by double-sealed mailing, using special envelopes E-19 and E-20.

Section 5. Dissemination of Information to Field Offices

.01 Project information will be distributed to regional offices for prompt dissemination to district Audit and Intelligence Divisions for consideration and such action as appropriate.

.02 The association of this information with related cases by district offices will be expedited. Since many of the returns of the taxpayers or related taxpayers may be under consideration by Audit or Intelligence, the project information should be expeditiously associated with the appropriate returns.

.03 Inquiries concerning the dissemination of project information should be directed to the National Office, Attention: CP:A:P:S for Audit matters, or CP:I:O, Attention: Special Project Manager, for Intelligence matters.

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Section 6. Audit Examination Plans

.01 The majority of income tax returns examined in connection with this project are expected to involve those which are currently under examination or are to be selected under the regular examination program. Examination of gift tax returns may increase. However, examination plans and procedures for gift tax returns will be included in a separate Manual document.

.02 Impact of this project on planned examination man-years for income tax returns is expected to be minor. If local problems are experienced which will cause a significant program deviation, regions should request approval for specific amendment to their approved FY Audit Examination Plan.

.03 Group managers and large case managers should become involved in the project examinations to ensure proper utilization of manpower. If support manpower is needed, consideration should be given to using Audit Accounting Aides to perform examination tasks not requiring full professional competence in accounting.

Section 7. Ordering and Delivery of Returns

.01 Districts and service centers will take necessary action to ensure that project returns are ordered and delivered on an expeditious basis. To assist in this effort, requests for such returns should be directed to: Chief, Audit Division, Service Center.

.02 Source Code 35 has been assigned to project returns. Returns ordered by Form 4298 (Audit Requisition and Information Report) or Form 3177A (Notice of Action for Entry on Master File) will be completed as required in Section 220 (Form 4298) and Section 250 (Form 3177A) of IRM 4810. Source Code 35 will be entered in Item 10 of Form 4298 and Transaction Code 424 and Source Code 35 (424-35) will be entered in Form 3177A. Returns previously selected from other sources which are transferred to this project will have the original source code in Item 10 (Form 1247--Examination Record) changed to 35.

.03 Audit project returns are to be delivered to district Service Branch for assignment and delivery to the appropriate examination group on a priority basis.

.04 District offices will also establish "sight" control of each selected return and Form 3949 referrals as cited in Section 4.02, above. The district Service Branch will place the returns in a red folder prior to referral to a group.

Section 8. Audit Division Examination Procedures

.01 Where feasible, project returns should be assigned to one group for selection, management and security purposes, rather than throughout related groups.

.02 Examining officers should be aware of the following suspect tax violations in evaluating project information for precontact analysis, program planning and in-depth compliance checks:

1 Concealed illegal contributions disguised as business expenses under such categories as legal fees, advertising, printing, dues and subscription, bad debt write-off, etc.

2 Deduction for use of facilities, capitalization of unusually large expenditures, employee salaries or travel expenses, when such employees are actually assigned to, and are working on, political campaign activities.

3 Unreported income such as interest, dividends and capital gains derived from the sale of securities and other contributed property.

Section 8 --Cont.

4 Failure to pay gift taxes on political contributions.

5 Kickbacks to campaign workers or their employers for campaign expenses.

6 Corporate contributions generated through foreign subsidiaries by use of rebate or fictitious invoice schemes.

7 Schemes used to generate cash "slush funds" for the purpose of making illegal political contributions, payments of kickbacks or payments for any other illegal activities.

.03 Examiners should bé alert to the possibility that funds may be flowing to State and local campaigns which may involve schemes and tax violations cited in Section 8.02, above.

.04 For additional audit techniques applicable to this project, refer to:

1 Procedures pertaining to political contributions in IRM 426(22), of Special Examination Features, and IRM 42(11)6:(2)(b) 5e, as well as (26)14 of IRM 4350, Audit Technique Handbook for Estate Tax Examiners.

2 Guidelines for in-depth probes and special compliance checks as provided in (12)00, IRM 42(11)8, Handbook for Field Audit Case Managers.

3 Procedures in Manual Supplement 42G-308 and Amend. 1--regarding income tax returns filed pursuant to Revenue Ruling 74-21 for a political organization filing Form 1120 (Corporation Income Tax Return), and Revenue Ruling 74-23, for individual political candidates filing Form 1041 (Fiduciary Income Tax Return).

.05 The National Office is in the process of assembling campaign information. Until notified that this task has been completed, field offices should contact National Office, Attention: CP:A:P:S, to ensure that all available information has been considered before disposing of project cases.

.06 Project cases which involve a request from the Office of the Special Prosecutor regarding allegations should not be closed by the examiner until after the National Office is advised by region of the planned disposition of the case. Narrative case reports as required in Section 9, below, will be used to advise National Office of the planned disposals.

.07 Existing IRM procedures will be followed with respect to the referrals to the Intelligence Division, assertion of penalties and unagreed cases.

.08 Examining officers should immediately request technical advice on controversial or technical issues as they arise in connection with political fund-raising activities. Such requests should be identified as a project case and a copy of the request should be attached to the narrative case report mentioned in Section 9, below.

.09 Survey of project returns must be approved by the Chief, Audit Division.

Section 9. Audit Reporting Requirements

.01 Each district will initiate a narrative case Report (Report Symbol NO-CP:A-399) on each project case, which will include the items listed in Attachment 1. This report will be submitted in duplicate to region as soon as possible after receipt of the information from the National Office. Each district will provide the region with the

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appropriate information in order that region may prepare the quarterly report cited in Attachment 2.

.02 Narrative case reports will be updated by districts whenever a significant change occurs and a final report will be submitted when the case is closed by the examiner. Regions will submit such reports to National Office (Attention: CP:A:P:S) as soon as possible.

.03 Technical time on project cases will be charged to the applicable audit class. These cases are not to be considered a part of the Special Enforcement Program or Coordinated Compliance Program.

.04 Each regional Audit Coordinator will submit a Quarterly Status report (Report Symbol NO-CP:A-384) on the tenth workday after the close of each quarter, to National Office (Attention: CP:A:P:S). The first 1974 regional report will be due August 26, 1974, and these reports will be on a cumulative basis and continued quarterly until notified by National Office. The items in Attachment 2, most of which may be obtained from the narrative case reports, are to be included in the quarterly report on a case-by-case basis and not by tax years.

.05 Include in the quarterly report a brief narrative statement describing the schemes identified, such as those set forth in Section 8.02, above. Also, include any problem areas being encountered in the project and possible solutions, if any, as well as other information considered necessary.

.06 Items to be reported in the quarterly status report, cited in Section 9.04 above, will include only those cases which arise from the national election campaigns. Unrelated State and local campaign cases are not to be reported within this quarterly status report. Patterns of noncompliance involving unrelated State and local campaign cases may be gathered from the information included in final narrative case reports.

Section 10. Intelligence Division Procedures

.01 The Special Project Manager will transmit information to the Regional Coordinator for forwarding to the districts. The Chief, Intelligence Division, should communicate the district's decision as to the disposition of the information by forwarding a copy of Form 3949 to the appropriate Regional Coordinator for transmission to the Special Project Manager not later than sixty days from the date of receipt of the information by the district.

.02 The Regional Coordinator should work closely with the districts to expedite the evaluation of information and with the Chiefs, Intelligence Staff, in service centers, to secure returns on a timely basis.

.03 If during the course of these investigations, evidence of violations of the Corrupt Practices Act (18 U.S.C. 610-13) are uncovered, the information should be promptly transmitted to the Director, Intelligence Division, as provided in IRM 9382.7, with a copy forwarded to the Special Project Manager.

.04 In cases where the evidence is insufficient to support a recommendation for prosecution under Title 26, the Intelligence Division will withdraw from the joint investigation and forward the original and two copies of the Special Agent's report to the appropriate Regional Coordinator. The Regional Coordinator will forward one copy of the report to the Director, Intelligence Division, Attention: Special Project Manager, for

Section 10 --Cont.

review and approval. Such reports should summarize the evidence in support of the civil fraud penalty, if appropriate. Cases involving withdrawal recommendations will not be referred to the district Audit Division until National Office approval has been received by the Chief, Intelligence Division.

.05 The Chief, Intelligence Division, will forward the original prosecution report, with exhibits, to the Director, Intelligence Division, Attention: Special Project Manager. All prosecution reports will be reviewed to ensure uniformity and to assist in determining the existence of any apparent widespread tax violations, including conspiracies.

.06 Due to the similarity of the nature of the tax violations, the Criminal Tax Division of the Office of Chief Counsel (CC:CT) will conduct the review of prosecution cases instead of Office of Regional Counsel. This will provide a centralized review function and will ensure uniformity. The Assistant Regional Counsel, Criminal Tax, in the Regional Counsel's office will provide assistance and liaison between district Intelligence Divisions and the Chief Counsel (CC:CT). Regional Counsel's representative will provide assistance with respect to summons enforcement, reluctant witnesses and use of grand juries.

Section 11. Intelligence Reports Processing

.01 When the Chief, Intelligence Division, concurs in a prosecution recommendation, he will prepare a transmittal memorandum to the Chief Counsel (CC:CT) for the signature of the District Director. The memorandum should include a brief summary of the case, a specific recommendation as to further action and any unusual legal problem in the case.

1 Pertinent documents will be distributed as follows:

a To the Director, Intelligence Division, Attention: Special Project Manager: Special Agent's report with Exhibits--original transmittal memorandum.

b To Chief Counsel (CC:CT): One copy of the Special Agent's report--four copies of the transmittal memorandum.

c To the ARC (Intelligence): One copy of the Special Agent's report--one copy of the transmittal memorandum.

d To the Regional Counsel, Attention: Assistant Regional Counsel, Criminal Tax: One copy of the Special Agent's report--one copy of the transmittal memorandum.

.02 In cases where prosecution is not recommended, the Chief will transmit a copy of the Special Agent's report to the Special Project Manager and forward a copy of his transmittal memorandum to the Regional Coordinator.

Section 12. Intelligence Reporting Requirements

.01 National Office Project Number 16 has been assigned to this Project and it is anticipated that all reports necessary to management can be obtained through the Case Management and Time Reporting System (Report Symbol NO-CP:I-46).

.02 Significant developments in project cases should be reported on a monthly basis by memorandum to the Special Project Manager, through the Regional Coordinator. Significant developments include, but are not limited to, the following:

1 Acceptance of a referral from the Audit Division;

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Section 12 --Cont.

2 Summons enforcement;

3 Discovery of significant evidence indicating withdrawal or probable prosecution recommendations may be forthcoming;

4 Unusual third-party contacts by the investigating officers; and

5 Any other developments of significance, which, in the judgment of the Chief, Intelligence Division, should be brought to the attention of the Special Project Manager.

Section 13. Use of Summons

The restrictions of IRM 4022.3 and 9363.2, concerning the use of summons to obtain information concerning the finances of a political organization, will be followed.

Section 14. Disclosure

Disclosure procedures as detailed in IRM 1272, Disclosure of Official Information Handbook, will be followed. The Special Project Manager in the National Office will maintain a current listing of all project taxpayers where disclosure has been requested and granted. The Disclosure Staff will send a copy of all approved disclosure requests to the Special Project Manager.

Section 15. Effect on Other Documents

.01 This amends and supplements IRM 426(22) and Sections 220 and 250 of IRM 4810, Audit Reports Handbook.

.02 This also supplements IRM 9382.7, 9631.2 and 9660.

.03 The "effect" in .01 and .02 above should be annotated by pen and ink beside the text cited, with a reference to this Supplement. Upon receipt of Manual Transmittal 9300-48 (which is presently being printed) similar pen-and-ink annotation should be made beside IRM 9382.4, which will replace IRM 9382.7.

John F. Hanlon

John F. Hanlon
Assistant Commissioner (Compliance)

Attachments

Narrative Case Report

(Report Symbol NO-CP:A-399)

Initial Report ____________

Interim Report ____________

Final Report ____________

Taxpayer's Name and Address

Tax Form No. (1040, 1120, 809)

Year(s)

Region

Estimated Completion Date

District

Principal Issue(s) Involved

Date | Chronology

Note: Format supplied as typing format only.
See Section 9 for details.

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Quarterly Status Report

(Report Symbol NO-CP:A-384)

Information Items	Audit Examination Cases: Gift Tax	Audit Examination Cases: Income Tax Ind	Audit Examination Cases: Income Tax Corp	Joint Investigation Cases: Gift Tax	Joint Investigation Cases: Income Tax Ind	Joint Investigation Cases: Income Tax Corp
Received.						
Eliminated from project.						
Selected for examination.						
Unassigned.						
Exams in process (include returns assigned, but not started).						
Examined disposals.						
All other disposals (surveys, transfers out, etc.).						
Type of Penalties Recommended						
Negligence.						
Fraud.						
Total Fraud Referrals						
Number accepted.						
Number rejected.						

Note: Format supplied as typing format only.
See Section 9 for details.

Management of Large Cases

42(11)6
Team Audit Guidelines—Continued (1)

e During the preplanning and the examination of all returns, case managers and team members will be alert for unusual items that may be related to political contributions. Audit plans will include the following compliance checks as well as any others deemed necessary by the case manager:

(1) Determine if property of any kind has been donated or loaned to a political party, committee or candidate.

(2) Determine if the taxpayer loaned any of its personnel to any political entity.

(3) Determine if services and/or products have been charged to a political entity. If so, how was the difference between the rate charged and the normal on-going rate treated for book and/or tax purposes?

(4) Trace amounts claimed as reimbursable expenses in expense vouchers to source documents to ascertain the validity of amounts claimed; determine if expense vouchers have been "padded" with the resulting excess utilized for political contributions.

(5) Determine if executives have received substantial bonuses under the guise that the proceeds would be used by the recipient to make significant political contributions.

(6) Determine if the taxpayer is liable for filing a gift tax return. If so, refer the information to a gift tax group.

(7) Case Managers should give special attention to Chapter (12)00, IRM 42(11)8, Handbook for Field Audit Case Managers.

(8) During examinations, if information concerning political contributions involving a National organization or candidate is an issue, the matter must be coordinated with the National Office (CP:A:P) before contact with the organization or candidate.

426(22).
Political Contributions

(1) During the preplanning and the examination of all returns, examining officers will be alert for unusual items that may be related to political contributions.

Examining officers will include the following compliance checks in their audit plans:

(a) Determine if property of any kind has been donated or loaned to a political party, committee or candidate.

(b) Determine if the taxpayer loaned any of its personnel to any political entity.

(c) Determine if services and or products have been charged to a political entity. If so, how was the difference between the rate charged and the normal on-going rate treated for book and/or tax purposes?

(d) Trace amounts claimed as reimburseable expenses in expense vouchers to source documents to ascertain the validity of amounts claimed; determine if expense vouchers have been "padded" with the resulting excess utilized for political contributions.

(e) Determine if executives have received substantial bonuses under the guise that the proceeds would be used by the recipient to make significant political contributions.

(f) Determine if the taxpayer is liable for filing a gift tax return. If so, refer the information to a gift tax group.

(g) In cases which are part of the coordinated examination program, special attention should be given to Chapter (12)00, IRM 42(11)8, Handbook for Field Audit Case Managers.

(h) If, during the examination, information concerning political contributions involving a National organization or candidate is an issue, the matter must be coordinated with the National Office (CP:A:P) before contact with the organization or candidate.

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

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STATEMENT BY THE HONORABLE STEPHEN S. GARDNER
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
WEDNESDAY, MAY 14, 1975

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to testify on behalf of S. 1267, the so called Financial Institutions Act (FIA) of 1975. This committee has played a leading role in the Congress in the consideration of these structural reforms which will broaden the powers of financial intermediaries that serve consumers. Nothing has happened since the original drafting of similar legislation in 1973 that invalidates the concept and purpose of the legislation. On the contrary, the need for granting expanded powers has been demonstrated by our problems with inflation and disintermediation. In fact, in the last year your Committee's hearings and the substantial dialogue between industry and consumer representatives and the Treasury Department have developed better understanding and support for the principle thrust of S. 1267.

The proposed Financial Institutions Act of 1975 also contains a number of significant changes from the legislative proposals you considered last year. I believe these changes are responsive to the comments made at your hearings and our discussions with the public.

The bill before you now is designed to increase the strength and viability of a number of classes of financial institutions by permitting them to respond more readily to economic, financial and institutional change. But I want to say at the outset that a clear beneficiary of this change will be the consumer. The bill encourages greater competition and provides new opportunities for savers to earn a competitive rate on their investment while providing homebuyers with greater assurance that the flow of funds for home mortgages will not be disrupted during periods of high interest rates.

WS-300

If the Congress enacts this bill into law, our financial institutions will benefit from the ability to offer new services and enter new markets; and their customers, both depositors and borrowers, will share these benefits.

Savings and loan associations and mutual savings banks will be permitted to offer checking and negotible order of withdrawal (NOW) accounts to individuals and businesses, while diversifying a portion of their investments into consumer loans, unsecured construction loans, commercial paper, and certain high-grade private debt securities.

Commercial banks will be permitted to offer corporate savings accounts and NOW accounts. Credit unions will be permitted to offer mortgage loans to members, make a wider range of loans at more varied interest rates, and set up an emergency loan fund.

To improve the availability of mortgage credit, commercial banks, savings and loan associations, mutual savings banks, and other taxable financial institutions will be granted a new tax incentive to enlarge their volume of mortgage loans. Finally, the Act provides for the elimination of interest rate ceilings on all types of savings over a 5-1/2 year period.

The significant changes from the original proposal involve two sections of the legislation.

First, the abolition of interest rate ceilings on deposits will still occur 5-1/2 years after the passage of the Act. However, prior to the removal of ceilings, the Administration will conduct an intensive investigation to examine economic and financial conditions at that time. The study will include a review of the general state of the economy as it relates to financial institutions, how savings institutions have responded and used their new powers, and the needs and interests of the consumer/saver. The President and the Congress will then have the opportunity, if appropriate, to make any final improvements in the direction of the legislation.

It is our conviction that within 5-1/2 years the thrift institutions, with broader powers to compete for deposits, will not need the artificial ceilings imposed by Regulation Q. During this period the Coordinating Committee will continue to have, however, the authority to set ceilings and differentials.

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Second, the mortgage interest tax credit is included in the Act as before, but savings and loan associations and mutual savings banks will be given a one-time option until 1979 to decide when to substitute this tax measure for their current bad debt loss deduction. By 1979, all savings institutions will be required to shift to the mortgage interest tax credit.

In addition, the bill has also been changed to clarify the language which authorizes S&L's to make residential mortgage loans. The purpose here is to provide parity with commercial banks. In addition, the permissable investment of S&L's in corporate assets has been expanded to include bankers' acceptances, and Federal Home Loan Mortgage Corporation securities.

Under the new version of the bill, credit unions will have the authority to make mortgage loans for up to thirty years to members, and the limits on unsecured loans are raised from $2,500 to $5,000 for credit unions that otherwise qualify.

Housing and the Financial Institutions Act

Mr. Chairman, I feel that the impact of the Financial Institutions Act on housing is a matter of great consequence. We have prepared a Treasury paper on the interaction between the FIA and housing which I have appended to my testimony and would like to submit for the record.

Our views and findings in this area can be summarized briefly.

During the past ten years, the residential construction industry has undergone three major housing cycles. The last decline has been particularly devastating: the drop in housing starts has been more severe and protracted than any other since World War II.

Much of the decrease in residential construction is the result of rising inflation, tight money, and unemployment. However, the situation has been aggravated by the statutory imperfections in the housing financing system.

In an effort to provide long-term reform of our financial institutions and reduce the severity of housing credit cycles, the Administration has indeed proposed the FIA. But I should make it clear that the FIA was not intended solely as a housing measure. The basic purpose of the Act is to achieve needed reform and flexibility for our financial institutions. The FIA is concerned with housing, but it is also concerned with assuring the consumer/saver of an adequate return on his savings and a wider variety of financial services, ending the disruptive and unstable pattern of savings flows to mortgage-oriented thrift institutions, increasing the strength and flexibility of these institutions, and raising the efficiency of the financial system through a greater reliance on market forces.

In the process of achieving all of these objectives, we believe that the FIA will also increase the long run supply of housing credit and reduce the cyclical instability of mortgage financing.

Under the provisions of the FIA, mortgage-oriented thrift institutions will retain their specialized functions. They will tend to do so because of the competitive advantages of specialization, and because of the positive incentive offered by the mortgage interest tax credit provisions in Title VII of the bill.

The growth of transactions balances held in these institutions as a result of their new checking account and NOW account powers will add a stable source of funds for mortgage lending. The higher interest rates that institutions will be able to offer depositors as a result of increased consumer lending will attract new savings. Recent studies have shown that savings flows are highly responsive to small changes in deposit rates. If the increased yield from consumer loans enables mortgage-oriented thrift institutions to offer more competitive rates, the new savings flow is likely to exceed the volume of funds invested in consumer loan assets. As a result, there will be a larger volume of funds available for mortgage lending.

Nor will S&L's switch to consumer loans to the detriment of mortgage lending. S&L's are mortgage specialists and have expressed a strong commitment to maintain their traditional role. A comparative study of Texas savings and loan associations found that in every year between 1960-1972, the state chartered associations - which possess consumer lending powers - had a higher percent of savings in mortgage loans than the Federal associations. We expect consumer loans to compliment mortgage loans; they will certainly not replace them.

In addition, the mortgage interest tax credit provision of the FIA will serve as an automatic stabilizer with respect to mortgage credit flows. During times of tight credit the MITC offers a greater incentive for thrift institutions to continue to invest in housing. If a thrift has 70 percent or more of its portfolio in mortgages, the credit raises the before-tax rate of interest on a 7 percent mortgage to 7.47 percent, a gain of 47 basis points. If, on the other hand, the mortgage interest rate is 10 percent, the equivalent before-tax yield is 10.67 percent, a gain of 67 basis points. In other words, the absolute rate advantage of mortgages will rise during times of tight money, making mortgages relatively more attractive to investors when credit is scarce.

In addition, the mortgage interest tax credit will increase the absolute importance of mortgage investments by insitutions such as commercial banks. These are less subject to disintermediation and therefore total mortgage flows will be less variable.

In conclusion, I want to stress that virtually all of the available studies on financial reform along the lines of the FIA support the conclusion that housing will benefit as a result of such a program. This was the result of a study by Professors Barry Bosworth of the University of California at Berkeley and James Duesenberry of Harvard University, and it was confirmed in the recent study by the Federal Home Loan Bank Board which was prepared for your Committee. Further, similar results were presented in testimony to this Subcommittee by Professor Dwight Jaffee of Princeton University during the 93rd Congress. We have submitted copies of what we believed to be the most significant of these studies to members of your staff, and I would be happy to submit this list for the record. I believe that you will find substantial agreement among professional economists on the need for the FIA.

Credit Unions and the Financial Institutions Act

I understand that in this set of hearings the Subcommittee is also considering S. 1475, Credit Union Financial Institutions Act Amendments of 1975. The credit union amendments cover three major areas: (1) restructuring the National Credit Union Administration (NCUA), (2), expanded powers, and (3) a broad Central Liquidity Facility.

Regarding the restructuring of the National Credit Union Administration, we have not felt that detailed reform of the regulatory agencies should be included as a part of the Financial Institutions Act. Regulatory agency reform is a complex question and requires careful, independent review. While we have no objection in principle to separate consideration by the Committee of the proposed restructuring of the NCUA, we do not feel it should be part of the FIA.

In the matter of expansion of credit union powers, the Treasury Department has held a number of meetings with credit union associations. We feel that as other financial institutions are allowed to expand their powers, credit unions indeed should receive similar opportunities. However, it is important to remember that credit unions have a unique role in the family of financial institutions. They serve a limited membership drawn together by some type of "common bond," and they enjoy a special tax exempt status.

Under the revised version of the FIA, the powers of credit unions would be expanded significantly. As a part of the Act, credit unions will be able to offer mortgages to their members. The maximum term of unsecured loans will be raised from five to seven years, and the maximum term for secured loans from ten to twelve years. The FIA provides for extending lines of credit to credit unions members, and permits such credit to vary according to the credit worthiness of their borrowers. The Act permits the issuance of share certificates with varying dividend rates and maturities subject to the rules of the NCUA. And the FIA further authorizes the Administrator of the National Credit Union Administration to approve loan rates above the statutory ceilings if it is appropriate.

In addition, there are a number of items that are not included in the Financial Institutions Act which we believe can be handled by regulation, subject to the judgment of the Administrator of the National Credit Union Administration For example, credit unions are concerned about third party payments. The Financial Institutions Act does not provide for this specifically, but there is currently a share draft experiment underway which provides third party payments for an experimental group of credit unions. We support this innovative experiment, and we are optimistic about the results

The expanded credit union powers proposed in S. 1475 would go far beyond the balanced expansion of powers proposed in the FIA. The more significant provisions of S. 1475 would eliminate the common bond requirement, generally diminish NCUA's regulatory control, and provide authority to accept demand deposits, to participate with other lenders, to make any loan which is guaranteed by the Federal government or State government, to provide personal trust and custodial services, to deal in "any money transfer instrument," and to hire professional managers. If this bill is enacted, credit unions would be indistinguishable from tax paying thrift institutions.

The principal differences between the Discount Fund proposed in the FIA and the Central Liquidity Facility (CLF) proposed in S. 1475 are in its scope and financing.

The Discount Fund would be authorized to lend to its member credit unions to provide funds to meet emergency and temporary liquidity problems. The purposes of the CLF would be to provide funds to meet the general liquidity needs of credit unions.

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The Discount Fund would be authorized to borrow only from the Treasury in amounts up to five times its paid-in capital but not in excess of $150 million outstanding as authorized in appropriations acts and only in the event that the Secretary determines that an emergency exists and that there are insufficient funds in the Discount Fund to meet its obligations for advances to members.

The CLF would be authorized to issue bonds and other obligations in the market up to 20 times its paid-in capital. Obligations of the CLF would be fully and unconditionally guaranteed both as the interest and principal by the United States, and such guarantee would be required to be expressed on the face of the obligations. This provision would appear to bring the obligations of the CLF within public debt subject to statutory limitation.

The CLF would also be authorized to require the Treasury to lend it up to $1 billion dollars in the event that there are insufficient funds in the CLF to meet obligations for advances to members.

The broad scope of the expanded powers and CLF proposals in S. 1475 raises important questions about the role of credit unions vis-a-vis competing depository type lending institutions that bear on the tax-exempt status of credit unions. Such powers would also raise questions about the philosophy of the concept of "common bond" memberships joining together to make loans to members from the savings of other members. Authority for the CLF to issue its own obligations in the market raises serious concern about the proliferation of Federal agency borrowing activities in the marketplace.

Mr. Chairman, I would again like to take the opportunity to commend you, your Committee, and your staff for the consideration you have given to financial reform. Through your efforts a central forum has been provided for the discussion of policies which attempt to deal with the inadequacies of our present system of financial intermediation.

When the Financial Institutions Act was first introduced in October, 1973, its method of balanced reform included measures that would strengthen the entire system. At that time each institutional group favored that portion of the bill which seemed to add to its competitive well being and opposed measures that it felt would add to the strength of its competitors. Where the threat was perceived to be serious, institutions flatly rejected the idea of any reform at all.

Two years of recurrent high interest rates has accomplished a great deal by convincing a number of institutions and regulatory authorities of the need for immediate action and reform to enable the financial system to better cope with high interest rates and dramatic change.

It is gratifying to see that interest in reform through expanded services to depositors and borrowers has been generally accepted. The Federal Home Loan Bank Board has published or adopted regulations permitting an expanded bill payment-type automatic third party payment and a limited consumer lending authority for S&L service corporations. Credit unions, with the approval of the National Credit Union Administration, are experimenting with share drafts. The National Commission on Electronic Fund Transfers, the Fair Credit Bill, Truth-in-Lending Act Amedments, and the Equal Credit Opportunity Act are all in the spirit of the FIA.

We applaud such independed movement toward financial reform. At the same time, we must caution against a piecemeal approach.

The FIA-75 is a minimum reform, emphasizing balance and comprehension. It seeks to achieve financial reform while maintaining the competitive balance between institutional classes. As a result it is important that the measure be passed as a whole, rather than be broken into piecemeal legislation which might substantially alter the relative strength of competing financing institutions. It is also important that it be passed intact because certain beneficiaries, such as savers, are generally not formally organized to present their views, and may not receive sufficient consideration in a series of partial measures.

The FIA is important, responsible legislation. Over the last few years it has received substantial support from the non-partisian academic community. It is time for the Congress to move forward. The penalties of waiting will indeed be high.

Thank you and I will be pleased to try to answer your questions.

TREASURY DEPARTMENT
May 13, 1975

FINANCIAL REFORM AND HOUSING

INTRODUCTION

During the past ten years, the residential construction industry has undergone three major housing cycles. The last decline has been the most severe and protracted of any since World War II.

The current decline in residential construction has been the result of a number of factors -- rising housing and energy costs, unemployment, and changing demographic patterns. The situation has been aggravated by imperfections in the housing financing system, which have made the supply of funds scarce when housing is plentiful and plentiful when housing is scarce. Mortgage-oriented thrift institutions, hampered by slowly changing earnings on their long-lived portfolios, have been unable to compete with returns provided by non-deposit investment assets. As a result, during the tight money periods of 1966, 1969-70, and 1973-74, they experienced significant deposit outflows, which reduced the supply of funds available for mortgage lending and thus compounded the problems of the housing industry. Regulatory restrictions on deposit rates, although reducing competition from commercial banks for deposit funds, were clearly ineffective in preventing disintermediation from all depositary institutions, and at the same time, were grossly unfair to depositors unable to shift their funds elsewhere.

To provide for the long-term evolution of our financial institutions and to reduce the severity of housing credit cycles, the Administration has proposed the Financial Institutions Act of 1975 (FIA). It should be clear, though, that the FIA is not solely a housing measure. The basic purpose of the Act is to achieve needed reform and flexibility for our financial institutions. The results will be beneficial for housing, but they will also help to assure the consumer/saver of an adequate return on his savings and a wider variety of financial services, end the disruptive and unstable pattern of savings flows to mortgage-oriented thrift institutions, increase the strength and flexibility of these institutions, reduce the demands for Federal intervention in financial markets and increase the efficiency of the financial system.

THE FINANCIAL INSTITUTIONS ACT AND HOUSING

The FIA will have two primary impacts on housing. First, the Act will help to stabilize the flow of money for housing. And second, the Act will tend to increase the overall level of housing credit over the whole period of the business cycle.

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Reducing the Instability of Housing Credit

Four features of the FIA will help to stabilize the mortgage market:

1. The FIA provides for a mortgage interest tax credit (MITC)

For thrift institutions, this credit replaces the current tax advantage related to their bad debt reserves which is now being phased down under current law. The credit will apply to all institutions except FNMA holding 10 percent or more of their portfolios in residential mortgages, and the size of the credit rises as mortgages become more important in their portfolios. The maximum credit is 3.5 percent and occurs when 70 percent or more of an institution's portfolio consists of residential mortgages.

The mortgage interest tax credit will be an automatic stabilizer with respect to credit flows. During times of tight credit the MITC offers a greater incentive for thrift institutions to continue to invest in housing. This is illustrated in Table 1. For example, if an institution has more than 70 percent of its portfolio in mortgages, the credit raises the before-tax equivalent rate of interest on a 7 percent mortgage to 7.47 percent, a gain of 47 basis points. If, on the other hand, the mortgage interest rate is 10 percent, the equivalent before-tax yield is 10.67 percent, a gain of 67 basis points, 20 points more

Table 1

EFFECT OF THE TAX CREDIT ON BEFORE-TAX MORTGAGE YIELDS

Portfolio share 1/ \ yield	7%	8%	9%	10%	11%
70+%	7.47	8.54	9.61	10.67	11.74
55%	7.40	8.46	9.52	10.58	11.64
25%	7.27	8.31	9.35	10.39	11.42
10%	7.20	8.23	9.26	10.29	11.32

1/ Share of qualified residential mortgages in asset portfolio, as defined in Title VII of the Financial Institution Act of 1975.

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than with the 7 percent mortgage. In other words, the absolute rate advantage of mortgages will rise during times of tight money making mortgages relatively more attractive to investors when credit is scarce.

In addition, since the mortgage interest tax credit is available to all financial institutions* it should increase the absolute importance of mortgage investments by non-thrift institutions such as commercial banks. These institutions are less subject to disintermediation, and therefore, total mortgage flows will be less variable.

2. The FIA allows financial institutions to raise deposit interest rates so as to compete during periods of tight credit.

The more flexible asset powers authorized by the FIA will make portfolio earnings of thrift institutions more responsive to changes in short-term interest rates. As a result they will be more competitive for savings in periods of high interest rates, and therefore, less subject to disintermediation at such times.

Recent studies have concluded that savings flows are highly responsive to small changes in deposit rates. The Federal Reserve-MIT-Pennsylvania quarterly econometric model of the United States, for example, predicts that a one percent increase in deposit rates

* FNMA is not eligible for the credit.

will lead to a 4-5 percent increase in total deposits.[1] In other words, small increases in rates paid to depositors during periods of tight credit should have an important influence in stemming large deposit outflows.

3. <u>The FIA allows thrift institutions to offer checking accounts, NOW accounts, and a full range of family financial services</u>.

These new powers will allow thrifts to provide a broader set of family financial services making them more competitive with commercial banks. In addition, the increased flow of funds resulting from checking and N.O.W. accounts will be less sensitive to interest rate changes, further reducing the probability of disintermediation.

4. <u>The FIA allows thrifts broader investment powers</u>.

Thrift institutions will be allowed to make limited investments in consumer loans and commercial paper. This will enhance the importance of short-term assets in their balance sheet and thus provide them with more liquidity when credit is tight. When mortgage markets become especially tight and when mortgage interest rates rise relative to other rates, they will have greater flexibility to shift into mortgages, thus easing any shortgages which develop.

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Increasing the Level of Housing Credit

While it seems fairly clear that the FIA will be helpful in smoothing mortgage flows over the business cycle, the question still remains whether the long-run average level of mortgage investment will be lower or higher as a result of the reforms contemplated by the act. Virtually all of the available evidence supports the conclusion that housing will benefit due to such a program. A number of factors contribute to this result.

First, the increased service base of mortgage-oriented thrift institutions will permit them to attract a larger volume of deposits, partly through the offering of these services and the added convenience of family banking, and partly through the increased earnings of expanded powers. As deposits grow, the availability of mortgage credit increases relative to the demand without increasing mortgage rates to borrowers. The result is an increased flow of mortgage credit and housing.

If the increased yield from consumer loans enables mortgage-oriented thrift institutions to offer more favorable deposit rates, the new savings flow will probably exceed the volume of funds in consumer loan assets.

As a result, there will be a larger volume of funds available for mortgage lending than would otherwise be the case, despite the additional consumer lending. This can be illustrated by using the relationship discussed earlier (based on the Federal Reserve-MIT-Pennsylvania model) that a one percent increase in deposit rates will result in a 4-5 percent increase in total deposits.

Suppose that an S&L increases its holdings of consumer loans to 10 percent of its portfolio, and that these have a net return of 2 percentage points more than the rest of the portfolio after operating costs. Further suppose that this two percent differential is paid to depositors who were earning about 6 percent on their deposits, increasing their yield to 6.20 percent. The 20 basis points represent an increase in the deposit rate of 3.3 percent, which will tend to cause an increase in deposit growth of between 13 percent and 16 percent in the long-run. If the 10 percent consumer loan share of the portfolio is maintained, it will not only finance itself through deposit growth, but it can provide additional funds for a growth of mortgage credit.[2]

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Second, it is highly unlikely that thrift institutions will abandon making mortgage loans as their main activity. This is their traditional "bread and butter," they make money at it, and it's the business that they know best. For example, a comparative study of Texas savings and loan associations found that in every year between 1960-1972, "the State chartered associations (which possess some consumer lending powers) had a higher percent of savings in mortgage loans than the Federal associations."[3]

Third, the mortgage interest tax credit provides a strong incentive for mortgage-oriented institutions to keep their morgage portfolio as a high percent of their assets. For example, if such an institution were to decrease its holdings to 69 percent, it would not only lose the tax credit on the 1 percent decrease, it would lose 1/30th of the tax credit on the entire 69 percent portfolio.*

Fourth, the FIA itself sets limits on the amount and type of assets that can be held. Such limits will assure that the large majority of the assets of thrift institutions remain in housing.

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* Suppose the average interest on the existing portfolio were 8 percent. After allowing for the credit this would be an effective 8.90 percent at 70 percent and 8.89 percent at 69 percent. Since the 1 basis point loss applies to the entire remaining mortgage portfolio there is a 69 point penalty for the mortgage dilution. This will directly discourage mortgage disinvestment.

Finally, there will be a greater incentive for other financial institutions to invest in mortgages due to the extremely powerful incentive of the mortgage interest tax credit. These institutions would get no tax credit unless mortgages constituted more than 10 percent of their portfolio. An estimate by the Treasury Department of the asset structure of financial institutions indicated that if all commercial banks increased their mortgage assets in 1974 to the 10 percent level so as to take advantage of the minimum provisions of the mortgage interest tax credit, an $8.5 billion increase in the mortgage holdings of commercial banks would have resulted in that year.

Research Results

It is worthwhile to briefly summarize several of the most important research studies concerning the impact that FIA-type financial reforms will have on housing. The most negative findings show some increase in housing; the most positive show a substantial improvement.

One of the more comprehensive approaches to this question was undertaken by Barry Bosworth and James Duesenberry.[4] They analyzed potential policies by tracing their impact upon financial flows as well as on real economic activity. Their simulation of raising deposit

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rate ceilings by 50 basis points indicates an increase in deposits, mortgage credit and housing (Table 2). For example, such an increase in the ceiling of 50 basis points over the 1969-71 period would have resulted in an additional $6.3 billion in housing construction.

More recently, the Federal Home Loan Bank used the same Duesenberry-Bosworth model to simulate the provisions of checking account services and consumer loans by savings and loan associations. They also found an increase in savings deposits, mortgage credit, and housing starts.[5] As a result of these two changes alone, housing starts would have increased by an average of almost 200,000 per year over the period simulated. (See Table 3)

Finally, similar results to both of these studies are reported by Myron B. Slovin, and Marie E. Sushka in their forthcoming book, <u>The Economics of Savings Deposit Rates of Financial Institutions.</u>[6]

<u>CONCLUSIONS</u>

The mortgage-oriented thrift industry cannot continue to suffer massive waves of disintermediation without being permanently weakened as a source of mortgage funds. At the same time, there is nothing in the long-run outlook to suggest that they will become any less sensitive to the business cycle given the present regulatory structure, unless they are massively subsidized by the Government.

The FIA provides the opportunity for them to escape the restrictive confines of current regulation and to avoid excessive dependence on Government assistance. Under the act they will be allowed to offer a much wider array of services to their customers ranging from checking accounts to consumer loans. The eventual elimination of interest rate ceilings will allow them to be much stronger competitors for funds.

The increase in the powers of mortgage-oriented thrift institutions should make them stronger institutions and add to the flow of mortgage funds. The desire to expand these powers is not to encourage thrift institutions to get out of the mortgage business, but to simply provide them with a full set of financial services to families. They need to become "one-stop family financial centers " with mortgages remaining as the most important part of their business.

The achievement of a larger and more constant flow of mortgage credit will go a long ways toward removing potential weaknesses in the housing industry. In addition, savers, borrowers, the institutions, and the community will benefit.

Table 2

Bosworth-Duesenberry Flow-of-Funds Simulation

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Table 2. Changes in Selected Variables Resulting from a 0.5 Percent Rise in Deposit Rate Ceilings

Variable	Semiannual Periods 1969:1	1969:2	1970:1	1970:2	1971:1	1971:2
Interest Rates[1]						
Savings and Loans	.32	.43	.36	.42	.43	.45
Savings Banks	.32	.42	.36	.40	.43	.44
Comm'l Banks (non CD's)	.40	.42	.44	.46	.47	.48
Three-Month Bills	-.36	-.36	-.21	-.17	-.32	-.48
BAA Bonds	-.11	-.21	-.24	-.30	-.29	-.39
Flow Variables[2]						
GNP	2.0	7.1	11.4	13.1	12.8	12.5
Residential Construction	.8	2.4	3.0	2.5	1.9	2.0
Business Investment	.2	.9	1.7	2.3	2.5	2.4
Stock Variables[3]						
Deposit Accounts	9.7	17.0	20.2	21.5	25.3	30.6
Household Financial Assets	.7	2.6	4.7	6.8	8.9	11.0
Money Supply	-2.8	-3.5	-3.3	-3.1	-3.7	-4.7
Residential Mortgage Stock	1.0	3.6	6.2	8.2	10.1	12.5
Comm'l Bank Earning Assets	1.5	3.1	4.1	3.6	3.5	3.7
Long-Term Securities Outstanding	.7	1.6	1.6	1.3	1.5	2.1
Short-Term Securities Outstanding	-1.5	-3.2	-4.5	-6.1	-8.0	-10.2
Federal Gov't Securities	-1.2	-2.8	-4.6	-7.3	-10.4	-14.0
Foreign Security Holdings	2.5	3.5	4.0	3.9	4.6	5.5
Household Security Holdings	-3.8	-7.7	-9.6	-10.3	-11.8	-13.8

1. Interest rates are measured as percentages.
2. Flow variables are measured at annual rates in billions of dollars.
3. Dollar stocks are measured in billions of dollars.

TABLE 3

FHLBB Fow-of-Funds Simulation

Simulated Effect of Providing Savings and Loan Associations with Checking Account and Consumer Credit Powers on Selected Measures of Financial and Housing Activity
(Amount by which selected measure for indicated period exceeds the control solution)*

Selected Measure	1967 1st Half	1967 2nd Half	1968 1st Half	1968 2nd Half	1969 1st Half	1969 2nd Half	1970 1st Half	1970 2nd Half	1971 1st Half	1971 2nd Half
Deposits Held at end of period ($ billion)										
S&L Savings Accounts	0.5	1.2	2.2	4.5	7.3	9.9	10.7	12.4	14.1	16.3
S&L Demand Deposits	2.8	5.0	6.7	8.0	9.1	9.9	10.5	11.0	11.4	11.7
Commercial Bank household time deposits**	-0.1	0.2	0.8	2.6	6.2	8.8	10.4	9.2	8.8	9.6
Residential Mortgages Outstanding at end of period ($ billion)										
S&L	0.5	1.3	2.7	5.5	8.8	12.1	13.6	15.8	18.1	20.7
All Other Lenders	-0.2	-0.5	-0.7	-0.6	-0.3	0.5	1.5	2.8	3.9	4.9
Total	0.3	0.8	2.0	4.9	8.5	12.6	15.1	18.6	22.0	25.6
Housing Starts during period (thousands of units, at annual rates)	22.7	57.0	115.8	228.7	325.1	358.5	251.4	225.7	208.7	195.8
Investment in Residential Structures during period ($ billions)	0.3	0.9	1.9	3.8	5.6	6.4	4.6	4.2	4.1	4.1

simulation assumes S&Ls achieve 5 percent of assets in consumer loans and 5 percent of liabilities in checking accounts by the end of 1971.
text for explanation of growth in time deposits held by commercial banks

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FOOTNOTES

1. These calculations use equation number 185, Section XX.6 of the Federal Reserve Quarterly Econometric Model Equations, as published January, 1973. This equation relates combined Savings and Loan Association and Mutual Savings Bank deposits relative to household wealth to such factors as changes in separate components of household wealth, and yields on commercial bank deposits, Treasury bills, corporate bonds and on savings and loan association and mutual savings bank deposits. This equation is presently used in the Federal Reserve model, but it should be interpreted with certain caution. The coefficients were estimated from 1955 second quarter to 1969 third quarter, thus omitting three periods of disintermediation and much of the growth of certificates of deposit at savings and loan associations and mutual savings banks during the 1970's.

2. Of course this kind of calculation must be qualified by acknowledging that it is an exercise in comparative statics using a partial analysis. Nevertheless, it appears probable that small changes in the portfolio mix of S&L's of the sort contemplated by the FIA are more likely to increase the quantity of funds available for mortgage lending than not.

3. See "The Case for Savings and Loan Participation in the Consumer Credit Market," Kenneth J. Thygerson, Economist, U.S. League of Savings Association, August 20, 1973, p. 29.

4. Bosworth, Barry and James M. Duesenberry, "Policy Implications of a Flow of Funds Model," JF Papers and Proceedings, May, 1974.

5. Office of Economic Research, Federal Home Loan Bank Board, A Financial Institution for the Future: Savings, Housing Finance, and Consumer Services: An examination of the Restructuring of the Savings and Loan Industry, Washington, D.C.: FHLBB, 1975. 92pp.

6. Slovin, Myron B. and Marie E. Sushka, The Economics of Savings and Deposit Rates at Financial Institutions. Lexington, Mass.: D.C. Health Co., Summer, 1975.

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FOR IMMEDIATE RELEASE May 14, 1975

RESULTS OF AUCTION OF 2-YEAR TREASURY NOTES

The Treasury has accepted $2.0 billion of the $3.4 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	6.79%	1/
Highest yield	6.92%	
Average yield	6.86%	

The interest rate on the notes will be 6-3/4%. At the 6-3/4% rate, the above yields result in the following prices:

Low-yield price	99.924
High-yield price	99.683
Average-yield price	99.794

The $2.0 billion of accepted tenders includes 67 % of the amount of notes bid for at the highest yield and $0.3 billion of noncompetitive tenders accepted at the average yield.

In addition, $0.1 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 1 tender of $3,000,000

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FOR RELEASE ON DELIVERY
WEDNESDAY, MAY 14, 1975

STATEMENT BY MR. HAL REYNOLDS
U.S. ALTERNATE EXECUTIVE DIRECTOR AT THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
BEFORE THE SUBCOMMITTEE ON FOREIGN OPERATIONS
OF THE HOUSE APPROPRIATIONS COMMITTEE
MAY 14, 1975, AT 1:00 p.m. EDT

INTERNATIONAL DEVELOPMENT ASSOCIATION

The $375 million the Administration is requesting in FY 1976 for the International Development Association (IDA) represents the initial installment of the IDA Fourth Replenishment (IDA IV) which was authorized by Congress in July, 1974. This compares with an average annual installment appropriated for the IDA Third Replenishment of $401 million which included an average annual maintenance of value payment of $81 million. IDA IV contributions will not be subject to maintenance of value adjustments.

The U.S. share of the $4.5 billion IDA IV will be 33 percent, or $1.5 billion, down from previous U.S. shares averaging 41 percent since the inception of the organization in 1960. The negotiated U.S. share of IDA III was 40 percent, or $960 million of a $2.4 billion total.

While the IDA IV Agreement will support new lending commitments over the period FY 75-77, it gives donors the option of deferring their initial contribution to FY 76, and then paying in four installments extending through FY 79. The U.S. proposes to follow this course. Most of the other donor countries have already paid the first installment of their contributions, and thus will be paying in over a shorter period. The proposed U.S. contribution in FY 76 is essential if IDA is to operate at the lending levels contemplated under the IDA IV Agreement subscribed to by a total of 25 donor countries.

The IDA provides concessional credits to the world's poorest countries which cannot afford to borrow at the near commercial terms of standard World Bank loans. Sixty-six countries of Asia, Africa, and Latin America with annual per capita incomes below $375 have received IDA credits. Currently, most credits go to countries with per capita income of less than $200. The greatest concentration of projects is in Asia and Africa which have received 68 and 25 percent, respectively, of total IDA commitments. India, Pakistan, and Bangladesh have received 54 percent of all IDA credits since 1960.

Recent changes in the world economy have had a seriously adverse impact on these developing countries. Sharp increases in the prices of oil and some foods coupled with continued inflation in the industrial countries, and

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more recently the effects of recession on world market prices of primary commodities, have worsened the terms of trade for many developing countries which depend on IDA. IDA funds are not used to pay bills for oil, food or other consumables. But continued financial assistance from IDA is vitally necessary if the momentum of development in the poorest of the developing countries is to be maintained -- even at a reduced level. There is little disagreement that, taken as a group, the developing economies are for the present, at least, more rather than less dependent upon external assistance. The interests of the United States would be poorly served under these circumstances if we failed to join in the international effort which IDA exemplifies.

IDA credits are extended on highly concessional terms: repayment over 50 years at 3/4 of 1%. This is consistent with their fundamental purpose, which is to provide badly needed assistance to the borrower rather than yield a commercial rate of return to the lender. Most of the countries which borrow from IDA lack the capacity to service external debt on conventional terms, and even if they could, repayment on conventional terms would mean a lower rate of return for the borrowing country itself, and thus a smaller contribution to improved living standards and rising domestic savings and investment capacities.

Just as IDA lends to the poorest of its member countries it also seeks to reach the poorest citizens within those countries. The pattern of income distribution in most countries is a sensitive political issue; the ability of an international institution to exert influence over it depends to a very large extent on the attitudes of national authorities. But to the fullest degree possible, IDA, and the World Bank generally, work towards the achievement of more equitable income distribution. Wherever possible, their lending activities are concentrated on projects which, in addition to contributing to economic development, have a maximum impact in raising incomes and expanding employment opportunities for the poor.

I would emphasize, though, that the purpose is not relief or make work. It is rather to expand productivity, for only in this way can lasting improvement in the lives of the poor be achieved. Towards this end all IDA projects are appraised against strict rate of return standards, in exactly the same manner as projects supported by World Bank loans on harder terms.

In testimony before this Subcommittee last year, we spoke of the beginning steps which had been taken in the World Bank to carry out the initiative declared by Mr. McNamara in his 1973 Annual Meeting speech in Nairobi

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to help the poor, particularly in the rural areas. Much has been done during the past year to carry this work forward. The number of projects which in a direct and immediate sense benefit the lowest income groups has continued to move sharply upward.

IDA has recently given even greater emphasis to agricultural and integrated rural development projects in an effort to raise world food production and to stimulate economic growth in the least developed countries of the world -- which are primarily agricultural nations. Whereas in the FY 1964-68 period IDA committed only 14 percent of its resources to agricultural development, the corresponding amount for FY 1974 was 28 percent, and to date in FY 1975 it is 37 percent.

Wherever possible agricultural projects seek to increase the productivity of the small farmer. Furthermore, an increasing number of agricultural projects provide for additional components such as clinics, schools, and potable water supply.

Education and population also continue to receive major emphasis. In education a new thrust has been given in the direction of vocational and technical training. A $15 million credit was recently extended for a population project in Bangladesh. It will support a program which aims at reducing the nation's rate of population growth by more than one-half over the next 25 years. Six countries through their bilateral programs will provide an additional $27 million. There is definitely an increasing awareness among the developing countries that improvement in human skills, and the curbing of excessive population growth, can be as important to economic development, if not more important, than the accumulation of physical capital.

Virtually every week the Board of Directors of the World Bank, with its votes weighted proportionately to financial contributions, approves IDA credits for projects making a critical contribution towards improving the living standards of the desperately poor. I will briefly mention four approved in recent months which are typical examples.

Late in April of this year, a $5 million credit was approved to help finance an integrated agricultural development project in Sierra Leone. It calls for the construction and improvement of about 300 miles of roads, 200 village wells, credit for investment in on-farm development, 17 market centers, and technical assistance. It will result in additional annual production of 10,500 tons of rice, 3,200 tons of palm oil, 750 tons of palm

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kernels, 550 tons of cocoa, and 1,100 tons of groundnuts. The increased production will help the country save about $500 million in foreign exchange each year. About 14,000 poor farmers and their families will directly benefit. An additional 65,000 farmers will benefit from improved communication and services.

In August of 1974, an $11 million IDA credit was approved for Paraguay to support a three-year lending program to about 2,000 small farmers in public settlement colonies in the eastern region of that country. In addition, it will finance the construction of about 26 primary schools, two health centers, three community centers, 60 km of all-weather roads and the purchase of equipment for the construction and maintenance of 250 km of earth roads in the region. An estimated total of 7,000 low income rural families, about 42,000 people, will benefit from these improvements.

A $6 million credit of the Kingdom of Jordan was approved two months ago to help finance a second education project, the total cost of which is estimated to be $17.4 million. Its goals are (i) expanding and reinforcing vocational and technical education; (ii) supporting rural development projects in the Jordan valley through a pilot scheme of non-formal education; and (iii) promoting quality improvements, rationalization and economy of operation in secondary education. The project will include, among other things, the construction, equipping and furnishing of a polytechnic institute for 240 students, a technical training complex with an annual output of 400 trained workers, a rural development center with approximately 1,000 trainees per year, three comprehensive secondary schools enrolling 6,300 students, and a program of related technical assistance.

Early this year, the IDA provided $35 million for an agricultural project under India's drought-prone areas program. The project consist mainly of minor irrigation works, soil and moisture conservation works to protect 925,000 acres, pasture improvement, aforrestation, dry farming development and improved dairy production. The project will mitigate the impact of future droughts and yield an annual increase in crop production of about 58,000 tons, principally foodgrains and oilseeds. About 85,000 man-years of short-term employment will be generated over the project period, and about 20,000 man-years of permanent employment will be created. Measures to improve credit flow, research,and training will have permanent benefits. The project will improve the income of some 225,000 rural households, most of whom belong to the poorest segments

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of the population. (Since December 1974, the United States registered a negative vote on this and seven other IDA credits for India in accordance with an amendment to last year's IDA legislation which requires that the U.S. vote against IDA credits to any country exploding a nuclear device which has not adhered to the Nuclear Non-Proliferation Treaty.)

All IDA projects are subjected to rigorous technical and economic appraisal before being submitted to the Board of Directors for approval. Firm cost estimates are made; required technical and managerial assistance is provided for; and institutional reforms essential to the projects' success are insisted upon as a condition of fund disbursement.

Once a project is approved by the Board its subsequent execution is closely watched. Careful supervision is exercised at the procurement stage to assure compliance with fair international competitive bidding and the award of contracts to the lowest evaluated bidder. Funds are disbursed only against satisfactory documents evidencing progress of the project in conformity with the credit and project agreement. Progress reports are regularly received and monitored, and frequent on-site inspections are made by staff officials. Moreover, as each new credit is brought

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FOR RELEASE AT 12:00, NOON

REMARKS OF DR. H. I. LIEBLING
DEPUTY DIRECTOR, OFFICE OF FINANCIAL ANALYSIS
OFFICE OF THE SECRETARY, U.S. TREASURY DEPARTMENT
AT THE
NATIONAL ECONOMISTS CLUB LUNCHEON
BLACK HORSE TAVERN, THE ECONOMISTS ROOM
1236 20TH ST., NW, WASHINGTON, D.C.
THURSDAY, MAY 15, 1975

"THE 1975 ECONOMIC REPORT OF THE PRESIDENT --
PROMISES AND REALIZATIONS"

THAT OLD CLICHE OF "HONESTY BEING THE BEST POLICY" SERVED THE ADMINISTRATION WELL IN THE 1975 ECONOMIC REPORT OF THE PRESIDENT. ON THE INTERPRETATION OF THE PREVIOUS YEAR, IT INDICATED THE STORY OF 1974 WAS ONE OF INFLATION AND RECESSION; THAT THE UNWILLINGNESS OF THE MONETARY AUTHORITIES TO UNDERWRITE CONTINUED ACCELERATION OF INFLATION DROVE INTEREST RATES HIGHER AND CAUSED THE HOUSING SLUMP; AND THAT DUE TO THE INFLATION, THE SHIFT OF PERSONS AND BUSINESS INTO HIGHER INCOME BRACKETS CONSTITUTED A NEW FORM OF FISCAL DRAG WHOLLY INAPPROPRIATE AS A CONTRA-CYCLICAL POSTURE DURING A RECESSION.

FURTHERMORE, THE ECONOMIC PROFILE FOR 1975 IN THE <u>REPORT</u> WAS DRAWN WITH NO INTENT TO PAINT OVER THE DIFFICULTY OF REVERSING DECLINES IN REAL OUTPUT THAT WOULD OCCUR DURING THE FIRST HALF OF 1975, AND, INDEED, DIFFICULTIES WERE ASSERTED CONCERNING THE TURNAROUND TO ECONOMIC EXPANSION IN THE SECOND HALF OF 1975.

NOW, AS A CAREER MEMBER IN TWO ADMINISTRATIONS OF THE TECHNICAL GROUP OF THE TROIKA, LATELY EXPANDED INTO THE ECONOMIC POLICY BOARD, I MAY TESTIFY THAT IN FORMER YEARS THE DARK SIDE OF THE IMMEDIATE PAST WAS FREQUENTLY MINIMIZED AND THE BRIGHT LOOK OF THE FUTURE MAXIMIZED IN SOME OF THESE <u>ECONOMIC REPORTS</u>. THE REVERSE WAS TRUE IN OTHER <u>REPORTS</u> DURING THE 1960'S. VIEWING THESE <u>REPORTS</u> AS OBJECTIVELY AS AN ECONOMIC SCIENTIST CAN OR SHOULD, TWO PHASES MIGHT BE DISTINGUISHED -- EACH OF WHICH WAS TOUCHED WITH IDEOLOGICAL IMPULSES. THE TWO PHASES MAY BE DISTINGUISHED BY THE NATURE OF THE GNP FORECASTS MADE IN THESE <u>REPORTS</u>:

> DURING THE PERIOD 1963-1969, GNP IN CURRENT DOLLARS WAS UNDERESTIMATED IN SIX OUT OF SEVEN YEARS. I LEAVE OUT 1962 BECAUSE THAT WAS A PERIOD WHEN THE EUPHORIA OF THE NEWLY INSTALLED KENNEDY ADMINISTRATION HAD GOTTEN "THE COUNTRY MOVING" AGAIN IN 1961, AND IT WAS TOO SOON FOR IDEOLOGICAL

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PRECONCEPTIONS TO HAVE EMERGED OR BECOME PERSUASIVE, ACCORDING TO WALTER HELLER. THE AVERAGE UNDERESTIMATE OF GNP WAS 1% -- OR NEARLY $15 BILLION AT CURRENT LEVELS OF GNP. IN TERMS OF DIFFERENCES IN REAL GROWTH RATES, THE UNDERESTIMATE WAS MUCH LARGER. I COULD DWELL ON WHAT IDEOLOGICAL PREDILECTION LED TO THIS RESULT -- BUT THAT IS A TOPIC FOR ANOTHER OCCASION.

DURING 1970-1974, THE AVERAGE FOR THE ERROR OF THE ANNUAL FORECAST IS LESS MEANINGFUL. IN THE TWO YEARS OF 1970 AND 1971 -- AND THAT INCLUDING THE FAMOUS "1065" FORECAST FOR 1971 -- THE FORECASTED GNP WAS <u>OVERESTIMATED</u> IN QUITE A DIFFERENT EUPHORIA, ONE WHICH EMANATED FROM AN ENTIRELY DIFFERENT IDEOLOGICAL PERSUASION. OVER THE NEXT THREE YEARS, THE FORECASTS SHOW ONE SMALL NEARLY NEGLIGIBLE UNDERESTIMATE, THAT FOR 1972; A LARGE UNDERESTIMATE FOR 1973; AND AN APPARENTLY "ON-TARGET" FORECAST FOR 1974.

NO AWARD SHOULD BE GIVEN FOR THE SUCCESS OF THE 1974 FORECAST. IT WAS ATTAINED BECAUSE AN UNEXPECTED DROP IN CONSUMPTION EXPENDITURES WAS OFFSET BY UNEXPECTED INCREASES

IN BUSINESS FIXED INVESTMENT, RESIDENTIAL CONSTRUCTION, AND CHANGE IN BUSINESS INVENTORIES. ST. OFFSET, THAT PATRON SAINT OF ECONOMISTS, AGAIN HAD VALIDATED THIS FORECAST. FURTHERMORE, THE PATTERN DURING 1974 WAS UNLIKE THAT WHICH HAD BEEN PROJECTED: OUTPUT HAD BEEN EXPECTED TO FALL IN THE FIRST HALF, AND TO RISE IN THE SECOND. INDEED, WHEN TAKEN ON A "GROSS DOMESTIC PRODUCT BASIS," A SUPERIOR MEASURE OF NATIONAL OUTPUT, THE PATTERN WAS EXACTLY THE OPPOSITE: A FLAT PERFORMANCE IN FIRST HALF 1974 AND DECLINES IN THE SECOND HALF.

FOR THIS REASON, INCIDENTALLY, THE STUDIES OF GEOFFREY MOORE AND OTHERS REGARDING FORECASTED ANNUAL AVERAGES, AS COMPARED WITH "ACTUALS," DO NOT ADEQUATELY EVALUATE FORE-CASTING PERFORMANCE BECAUSE THE ANNUAL AVERAGES ARE FREQUENTLY MISLEADING. SOMEDAY, I WOULD WISH TO DO A QUARTERLY ANALYSIS OF THE GOVERNMENT FORECASTS. UNFORTUNATELY, THESE FIGURES ARE RARELY PUBLISHED. AS A MEMBER OF THE TROIKA, HOWEVER, I KNOW THE ANALYSIS OF THE FORECASTS WOULD REVEAL QUITE DIFFERENT RESULTS THAN CAN BE GLEANED FROM THE AVERAGE ANNUAL FIGURES.

IN CONTRAST, THE FORECAST FOR 1975 SEEMED UNAFFECTED BY THE SPIRIT OF CASANDRA OR POLLYANNA -- AS WELL, I THINK, BY IDEOLOGY, DESPITE FEARS THAT THE PHILOSOPHIES OF AYN RAND,

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J. P. MORGAN, AND WHOEVER MOVETH ROY ASH, MIGHT HAVE AFFECTED A FORECAST OF THE OUTLOOK. INDEED, IF THE FORECAST IN THE 1975 ECONOMIC REPORT IS REALIZED, IT WILL POSE A PROBLEM TO THEORISTS IN GENERAL -- A MATTER OF DISCUSSION SUBSEQUENTLY.

IN THE REPORT, THE FORECAST IS SUMMARIZED BY THE FOLLOWING:

> "GIVEN THE ASSUMPTIONS REGARDING ENERGY, FISCAL AND MONETARY POLICIES, THE ECONOMY IS LIKELY TO CONTINUE ITS DOWNWARD COURSE IN THE FIRST HALF OF 1975 AND TO MOVE ONTO THE ROAD OF RECOVERY IN THE SECOND HALF. THE FIRST HALF DECLINE IS LIKELY TO BE SEVERE, HOWEVER, AND THE SUBSEQUENT RECOVERY WILL STILL LEAVE THE LEVEL OF OUTPUT IN THE FOURTH QUARTER ABOUT THE SAME AS A YEAR EARLIER. FOR 1975 AS A WHOLE, REAL GNP WILL PROBABLY BE ABOUT 3% BELOW THE AVERAGE OF 1974. THE RATE OF INFLATION WILL BE VERY HIGH IN THE FIRST HALF OF THE YEAR... BUT IT SHOULD SUBSIDE IN THE SECOND HALF...BY THE FINAL QUARTER, AN INFLATION RATE OF 7% IS PROJECTED...".

THIS 1975 OUTCOME OBVIOUSLY WOULD BE AFFECTED BY ECONOMIC POLICIES IN EFFECT DURING THE YEAR. THE ECONOMIC POLICIES OF THE ECONOMIC REPORT WOULD HAVE REPRESENTED LESS STIMULUS TO THE ECONOMY THAN IS NOW APPARENTLY ON THE WAY, BUT NOT ALL THAT MUCH. THE ADMINISTRATION'S ESTIMATES FOR FISCAL 1975 OUTLAYS INITIALLY WERE AT $313 BILLION, BUT THIS BECAME STEADILY REVISED IN THE LATE WINTER UPWARD TO $324 BILLION, DUE TO REDUCED ESTIMATES OF OUTLAYS RELATING TO OFFSHORE RECEIPTS, HIGHER DEFENSE COSTS, HIGHER FOOD STAMP COSTS, ETC. ON THE OTHER HAND, RECEIPTS RECENTLY WERE REVISED UPWARD BY $7½ BILLION TO $282 BILLION. ACCORDINGLY, THE DEFICIT NOW STANDS AT $42 BILLION, INSTEAD OF THE $35 BILLION IN THE FEBRUARY BUDGET. THIS WOULD APPEAR TO REPRESENT MODERATELY MORE STIMULUS -- BUT, OF COURSE, MUCH LESS ON THE SO-CALLED "FULL EMPLOYMENT BUDGET BASIS" WHICH HAS BEEN USED AS THE "TRUE" MEASURE OF FISCAL STIMULUS ON RESTRAINT.

FOR FISCAL 1976, THE ADMINISTRATION'S SUCCESSIVE BUDGETS ARE MOVING TOWARDS INCREASINGLY LARGE DEFICITS -- AND, INDEED, THE DIFFERENCE BETWEEN THE LATEST ESTIMATES AND THOSE OF THE CONGRESS APPEARS TO BE NARROWING EACH PASSING DAY. THE IMPACT OF THESE BUDGETS MAY NOT DETERMINE ABSOLUTELY THE SHAPE OF THE ECONOMIC OUTLOOK FOR CALENDAR 1975 AND

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1976, BUT THEY WILL SURELY BE IMPORTANT. THE DEFICITS, OF COURSE, MAY BE LARGER THAN WHAT THE ADMINISTRATION HAD INTENDED, AND WISHED TO AVOID OUT OF CONCERN THAT STIMULUS MIGHT BE TOO LARGE.

IN THE LATEST PUBLISHED OFFICIAL ESTIMATES, THE DEFICIT RUNS AT $58.5 BILLION. BUT, IF PLACED ON THE SAME NON-ENERGY BASIS AS THE CONGRESSIONAL ESTIMATES, THE DEFICIT BECOMES $55 BILLION. IN ADDITION, ASSUMING -- AND IT IS PURE ASSUMPTION -- THAT THE ESTIMATE OF $4 BILLION IN RECEIPTS FROM RENTS AND ROYALTIES FROM OFFSHORE LEASES IS FACTORED IN, THE DEFICIT BECOMES $59 BILLION. IN ANY CASE, THIS IS A FINANCIAL TRANSACTION, WHOSE ECONOMIC IMPACT IS UNCERTAIN AND, INDEED, IT IS EXCLUDED FROM THE NIA BUDGET.

IF A FURTHER ADDITION IS MADE OF $4.1 BILLION DUE TO THE EXTENSION TO 1976 OF THE 1975 TAX REDUCTION ACT, THE DEFICIT REACHES $63.4 BILLION. FINALLY, ADDING $1.5 BILLION BECAUSE THE CONGRESSIONAL CONFERENCE REPORT STARTS OFF WITH AN ASCRIBED GOVERNMENT-ESTIMATED DEFICIT OF $60.0 BILLION, THIS WOULD REDUCE THE DIFFERENCE TO $4.7 BILLION FROM THE $68.8 BILLION RECOMMENDED BY THE CONGRESS. PRESUMABLY, THE DIFFERENCE IN THE TWO BUDGETS COULD BE NARROWED FURTHER BY UNEXPECTED OR UNASSUMED COSTS. BY AND LARGE, THE DIFFERENCES

DO NOT APPEAR VERY CRUCIAL TO AN ASSESSMENT OF THE ECONOMIC OUTLOOK, EXCEPT FOR THE $4 BILLION RELATED TO THE TAX REDUCTION ACT. IT IS MY PRIVATE OPINION THAT THE DIFFERENCE IS RECONCILABLE, IF IT STAYS AT THAT MAGNITUDE.

THE FIRST QUARTER GNP RESULTS INDICATE THAT THE HARD AND REALISTIC FORECASTS OF THE GOVERNMENT WERE CLOSE TO TARGET. INDEED, THE FORECASTS OF FIRST QUARTER ACTIVITY WERE CLOSER TO THE MARK THAN THOSE OF THE THREE MAJOR PRIVATE FORECASTING GROUPS, WHOSE PROJECTIONS OF THE SAME DATE INDICATE THAT OTHER MEANS AND OTHER METHODS STILL CAN BE SUCCESSFUL IN FORECASTING. FOR THE FIRST QUARTER OF 1975, AS COMPARED WITH "ACTUALS," CHASE ECONOMETRICS, DATA RESOURCES, INC., AND WHARTON EFA SCORED ERRORS OF $25.4 BILLION, $22.4 BILLION, AND $19.1 BILLION, RESPECTIVELY. IN CONTRAST, THE TROIKA GROUP'S FORECAST WAS NOT ABSOLUTELY ON TARGET, BUT ITS RECORD IS COMMENDABLE FOR THIS PERIOD. IN TERMS OF REAL GROWTH, THE GOVERNMENT FORECAST ABOUT HIT THE BULL'S EYE. AGAIN, THIS WAS A SUPERIOR PERFORMANCE THAN THAT OF THE THREE MAJOR MODELS, WHOSE ERRORS IN TERMS OF DIFFERENCES FROM "ACTUALS" OF GROWTH RANGED FROM 3½ PERCENT TO 5½ PERCENT.

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ONE SWALLOW DOES NOT MAKE A SUMMER, BUT THERE WOULD APPEAR TO BE PLENTY OF EVIDENCE ABUILDING THAT THE REST OF THE GOVERNMENT'S FORECAST FOR 1975 PRESENTLY IS IN PROCESS OF REALIZATION FOR MOST BROAD MAGNITUDES -- WITH THE MAJOR EXCEPTION BEING THE HIGHER THAN EXPECTED UNEMPLOYMENT RATE. REALIZATION OF THE 1975 PATTERN LIES LARGELY ON WHETHER THE LIQUIDATION OF INVENTORIES THAT HAD BECOME SO BURDENSOME BY THE FINAL QUARTER OF 1974 IN REACTION TO THE DETERIORATION OF FINAL DEMAND HAS BEEN IN PROCESS. THAT SEEMED TO BE PROGRESSING DURING THE FIRST QUARTER, WITH AN $11 BILLION INVENTORY DISINVESTMENT IN REAL TERMS, WHICH ACCOUNTED FOR NEARLY ALL OF THE FIRST QUARTER DECLINE IN REAL GNP. IN CONTRAST, "FINAL SALES" (GNP LESS INVENTORY INVESTMENT), STOPPED DECLINING, OR NEARLY SO.

MOREOVER, THE FLAT TREND OF FINAL SALES IN THE FIRST QUARTER HAS CHANGED TO ONE OF ADVANCE IN THE SECOND. ON A MONTHLY BASIS, THE TREND IS EVEN MORE DRAMATIC, ESPECIALLY AT RETAIL. RETAIL SALES BETWEEN DECEMBER THROUGH APRIL ADVANCED AT AN ANNUAL RATE IN REAL TERMS, OF 8.1%. LESS THE AUTOMOTIVE GROUP, WHICH HAS ITS OWN PECULARITIES AND PROBLEMS, THE ANNUAL RATE CHANGE WAS 9.2%.

I AM NOT SUGGESTING THAT THIS RATE OF INCREASE WILL BE SUSTAINED INDEFINITELY -- AND, INDEED, IF IT WERE, STIMULATION

WOULD BECOME WORRISOME. BUT, CLEARLY, THERE HAS BEEN A TURNAROUND IN CONSUMER BEHAVIOR -- AND ONE THAT GOES FAR BEYOND THAT INDICATED BY THE CONSUMER SENTIMENT INDEXES.

THESE GROWTH RATES ARE SCALING DOWN PREVIOUSLY HIGH INVENTORY-SALES RATIOS -- THOUGH THIS HAS BEEN CONCEALED BY LOOKING AT THE AGGREGATES. IN MARCH, THE TOTAL BUSINESS INVENTORY-SALES RATIO ROSE TO 1.69, WHICH COMPARED WITH 1.46 A YEAR EARLIER. IN CONTRAST, THE RATIO HAS BEEN DECLINING IN RETAIL TRADE (BUT NOT IN MARCH, DUE TO THE AUTOMOTIVE GROUP). FOR THE NONAUTOMOTIVE RETAIL GROUP, THE MARCH RATIO AT 1.45, WAS DOWN FROM 1.51 IN LATE 1974 AND HAS BEEN RESTORED TO YEAR-AGO LEVELS, A PERIOD NOT PARTICULARLY BURDENED BY INVENTORY OVERHANG. THIS DECLINE WAS WIDESPREAD AT RETAIL OUTLETS.

THERE IS EVERY INDICATION THAT THE INVENTORY-SALES RATIOS WILL DECLINE AGAIN IN APRIL AND MAY. HOPEFULLY, "STATISTICAL NOISE" WILL NOT AFFECT THE FIGURES, AS HAPPENS FREQUENTLY. APRIL RETAIL SALES, APART FROM AUTOS, WERE QUITE BUOYANT AND MAY APPEARS PROMISING. THE IMPACT OF THE TAX REDUCTION ACT SHOULD PROVIDE ADDITIONAL SUPPORT TO SALES -- THOUGH THE THEORY OF EVEN MORE STIMULATION FROM TAX CUTS SPREAD OVER MORE INCOME GROUPS, AS PROPOSED BY THE ADMINISTRATION, CAN BE SUPPORTED BY THE ECONOMIC LITERATURE.

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THAT IS NOT TO SAY THAT INVENTORIES ARE NO LONGER BURDENSOME EVERYWHERE. INDEED, IN MANUFACTURING, THERE APPEARS TO BE A CONTINUING RISE IN THESE RATIOS. WHILE INVENTORIES ARE NO LONGER BEING ACCUMULATED AND EVEN DECLINED IN MARCH, SHIPMENTS ARE FALLING EVEN MORE.

THE RISE IN CONSUMER SPENDING AND THE CONSEQUENT BITE ON INVENTORIES IS THE NEW FEATURE IN THE ECONOMIC SITUATION. THIS SHOULD MARK THE SLOUGHING OFF OF RECESSION -- PERHAPS IN MAY AND JUNE, AS REORDERING TO MAINTAIN ADEQUATE STOCKS OCCURS.

BUT THAT IS NOT TO SAY THAT THE EXPANSION THAT MIGHT BE EXPECTED IN THE LAST HALF OF 1975 WILL NECESSARILY BE SO VIGOROUS. INDEED, THAT IS THE POINT OF DIVERGENCE AMONG FORECASTERS. IN PART, THIS DEPENDS ON THE GROWTH RATE IN CONSUMER EXPENDITURES THAT MIGHT BE EXPECTED IN REACTION TO THE TAX CUT. THOSE ECONOMISTS WHO ARGUED FOR A VERY LARGE CUT AGAIN WILL BE PLACING THEIR CREDOS ON THE LINE -- THOUGH IT MIGHT BE TOO MUCH TO EXPECT RECANTATION IF SPENDING DOES NOT ACCELERATE TO MEET THEIR EXPECTATIONS. IF THE ECONOMY DOES NOT RESPOND RAPIDLY, NO LUSTER WILL HAVE BEEN ADDED TO THE ROLE OF TAX CHANGES AS AN EFFECTIVE SHORT-RUN STABILIZATION DEVICE. OTHER MEANS WILL NEED TO BE EXPLORED.

MY OWN FORECAST IS ONE OF RELATIVELY GOOD BUT NOT EXUBERANT GROWTH DURING LAST HALF 1975, SUBSEQUENTLY BECOMING MORE VIGOROUS IN 1976. THE CONSUMER SURELY WILL BE SPENDING MORE AS TIME PROCEEDS. BUT, MY OWN THEORETICAL PREDILECTIONS DO NOT ENVISAGE HIM (OR HER) AS A DECISIVE OR DETERMINING LEADER IN CYCLICAL EXPANSIONS. CONSEQUENTLY, FOLLOWING LITTLE OR NO GROWTH IN REAL GNP DURING THE SECOND QUARTER, THE ECONOMY MIGHT BE EXPECTED TO GROW IN THE AREA OF FIVE TO SIX PERCENT ANNUAL RATE IN THE SECOND HALF OF 1975. NEVERTHELESS, I FORESEE AN EVENTUAL ACCELERATION EFFECT ON INVESTMENT RESULTING FROM RISING CONSUMER SPENDING, BUT THAT SHOULD DEVELOP IN 1976.

TO PLACE THE FORECAST IN ANOTHER CONTEXT, I DO NOT FORESEE THE ECONOMY RUNNING OUT OF STEAM SOON AFTER THE TAX CUTS ARE SPENT AND THEREBY REQUIRING MORE STIMULUS. TO THE CONTRARY, IT SEEMS MORE LIKELY THAT THE REGENERATIVE FORCES IN THE ECONOMY ALREADY IN EVIDENCE PRIOR TO THE TAX CUT, WILL BE REINFORCED IN 1975, BUT, EVEN SO, IT WILL TAKE SOME TIME -- AS LATE AS 1976 -- TO ACHIEVE A HEAD OF STEAM THAT WOULD PROPEL THE ECONOMY TO A 7% TO 8% GROWTH RATE. AS 1976 UNFOLDS, DEFERRALS OF POTENTIAL SPENDING INCREASE OF HIGHER DISPOSABLE INCOMES WOULD HAVE TERMINATED; THE INVENTORY LIQUIDATION PROCESS WOULD HAVE BEEN COMPLETED; INCREASED

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CAPACITY UTILIZATION MIGHT BE EXPECTED TO DEVELOP; AND, AS A RESULT, CAPITAL GOODS SPENDING MIGHT BE EXPECTED TO ACCELERATE. IF THAT PATTERN WERE TO DEVELOP, IT WOULD FOLLOW THAT ECONOMIC POLICY SHOULD BE STIMULATIVE -- BUT ONLY MODERATELY IN 1975 AND PERHAPS NOT AT ALL IN 1976. BY THAT TIME, ESPECIALLY TOWARDS THE FINAL PART OF 1976, THE TRADITIONAL ELEMENTS OF NON-CONSUMPTION SECTORS -- MAY BE SUPPLYING SO MUCH STEAM THAT PRESSURES ON PRICES MIGHT AGAIN BECOME A PROBLEM.

THAT PROSPECT IS NOT SOON TO BE FEARED BECAUSE OF PRODUCTIVITY ADVANCES THAT USUALLY ACCOMPANY AN EXPANSION FROM A RECESSION LOW. ON THE AVERAGE, THE PRODUCTIVITY INCREASE FOUR QUARTERS AFTER A CYCLICAL TROUGH HAS BEEN 5% IN THE PRIVATE NONFARM ECONOMY. THAT WOULD PROVIDE TWO BENEFICIAL RESULTS: (1) A CUSHION FOR THE ADDED PRESSURE ON PRICES THAT MIGHT AGAIN EMERGE, AND (2) INCREASED CASH FLOW TO COMPANIES, WHOSE LIQUIDITY POSITION HAD NOT IMPROVED BY THE END OF THE FIRST QUARTER OF 1975 -- AND MIGHT REMAIN THAT WAY FOR A WHILE. THAT SURELY WILL ENHANCE INVESTMENT OUTLAYS.

SHOULD THIS FORECAST BE REALIZED, THE CHALLENGE TO ECONOMIC POLICY WOULD BE WHETHER TO SHIFT TOWARDS THE

MANAGEMENT OF DEMAND WITHIN THE LIMITS OF SUPPLY CONSTRAINTS THAT WOULD HAVE EMERGED. GRANTED, THE GROWTH HEREIN ENVISAGED FOR 1976 DOES NOT FORESEE A DECLINE IN UNEMPLOYMENT TO PRE-RECESSION RATES SOON. NEVERTHELESS, IT MAY BE RECALLED THAT MANY ECONOMIC FORECASTERS WERE SURPRISED WHEN THE ECONOMY BUMPED INTO CONSTRAINTS OF PRODUCTIVE CAPACITY IN LATE 1972, WHEN LIMITS WERE REACHED IN ABILITY TO GROW -- DESPITE AN UNEMPLOYMENT RATE ABOVE 5 PERCENT. THERE HAS BEEN LITTLE TIME SINCE THEN TO ACHIEVE A MORE BALANCED PRODUCTION STRUCTURE WHICH MIGHT OVERCOME POTENTIAL BOTTLENECKS APPEARING WELL BEFORE ANY CONVENTIONAL MEASURE OF "FULL EMPLOYMENT."

IN 1973, CAPACITY SHORTAGES WERE CONCENTRATED IN MAJOR MATERIALS PRODUCING INDUSTRIES. SINCE THAT TIME, THE UTILIZATION RATE FOR SUCH INDUSTRIES HAS FALLEN SHARPLY -- TO 70.7% IN THE FIRST QUARTER OF 1975 FROM THE 93.0% AVERAGED IN 1973. HOWEVER, JUST AS UTILIZATION RATES PLUMMETTED DURING THE INVENTORY CORRECTION, SO CAN THEY REBOUND DURING THE RECOVERY. INDEED, A 25% RISE IN THE MAJOR MATERIALS CAPACITY UTILIZATION RATE, SUCH AS OCCURRED IN THE FIRST YEAR OF RECOVERY

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FROM THE 1958 RECESSION, WOULD PUT THE RATE BACK TO THE 90% "DANGER" LEVEL.

THE SCENARIO OF STRONG EXPANSION IN 1976 REMAINS A JUDGMENT. INDEED, THE NATURE OF THE FORCES THAT CREATE STRONG EXPANSION IN REAL GROWTH FREQUENTLY COMES AS A SURPRISE (JUST AS THE FORCES LEADING TO SO DEEP A RECESSION IN 1974-1975 WERE UNFORESEEN BY MOST). EVEN SO, SOME DEGREE OF UNUTILIZED RESOURCES, AS MEASURED ON AN AGGREGATE BASIS, SURELY WILL HAVE PERSISTED EVEN THEN. THIS WILL BE WIDELY CITED AS REQUIRING ADDITIONAL ECONOMIC STIMULATION. BUT, IF THIS FORECAST IS REALIZED IN 1976, THEN FEARS OF TOO LITTLE PROGRESS IN REAL GROWTH IN 1975 (WHICH SUGGEST THE NEED FOR LARGER THAN CONTEMPLATED BUDGET DEFICITS) AND THE ECONOMY RUNNING OUT OF STEAM IN 1976 ARE QUESTIONABLE.

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For information on submitting tenders: TELEPHONE W04-2604

FOR IMMEDIATE RELEASE

May 15, 1975

TREASURY TO AUCTION $1.5 BILLION OF NOTES

The Treasury will auction to the public under competitive and noncompetitive bidding up to $1.5 billion of 17-month notes. The coupon rate for the notes will be determined after tenders are allotted. 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 of foreign and international monetary authorities.

The notes will be Treasury Notes of Series O-1976 dated June 6, 1975, due October 31, 1976 (CUSIP No. 912827 EP 3) with interest payable on a semiannual basis on October 31, 1975, April 30, 1976, and October 31, 1976. They will be issued in registered and bearer form in denominations of $5,000, $10,000, $100,000 and $1,000,000, and they will be available for issue in book-entry form.

Payment for the notes must be made on June 6, 1975. Payment may not be made through tax and loan accounts. Notes in bearer form will be delivered on June 6, 1975.

Tenders will be received up to 1:30 p.m., Eastern Daylight Saving time, Thursday, May 22, 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 Wednesday, May 21. Each tender must be in the amount of $5,000 or a multiple thereof, and all tenders must state the yield desired, if a competitive tender, or the term "noncompetitive", if a noncompetitive tender. 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.

Competitive tenders 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 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 100.000 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 99.751 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, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $500,000 or less will be accepted in full at the average price of accepted competitive tenders, which price will be 100.000 or less.

(OVER)

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Commercial banks, which for this purpose are defined as banks accepting demand deposits, and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, may submit tenders for the account of customers, provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account.

Tenders will be received without deposit from commercial and other banks for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, Federal Reserve Banks, and Government accounts. Tenders from others must be accompanied by payment of 5 percent of the face amount of 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 notes with their tenders in order to meet the time limits pertaining to checks as hereinafter set forth. Allotment notices will not be sent to bidders who submit noncompetitive tenders.

Payment for accepted tenders must be completed on or before Friday, June 6, 1975, at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt in cash, in other funds immediately available to the Treasury by June 6, or by check drawn to the order of the Federal Reserve Bank to which the tender is submitted, or the United States Treasury if the tender is submitted to it, which must be received at such bank or at the Treasury no later than: (1) Tuesday, June 3, 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 the case of the Treasury, or (2) Friday, May 30, 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 notes allotted will be subject to forfeiture to the United States.

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UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH April 1975

(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	3749	5	.13
UNMATURED				
Series E 3/ :				
1941	1941	1766	175	9.02
1942	8571	7776	796	9.29
1943	13785	12521	1264	9.17
1944	16099	14552	1547	9.61
1945	12686	11330	1355	10.68
1946	5800	5036	764	13.17
1947	5541	4686	854	15.41
1948	5751	4790	961	16.71
1949	5716	4686	1030	18.02
1950	5023	4066	957	19.05
1951	4345	3517	828	19.06
1952	4560	3665	895	19.63
1953	5231	4131	1100	21.08
1954	5349	4166	1184	22.13
1955	5581	4303	1278	22.90
1956	5390	4131	1259	23.36
1957	5089	3857	1231	24.19
1958	4984	3696	1289	25.86
1959	4684	3439	1246	26.60
1960	4719	3379	1340	28.40
1961	4824	3345	1479	30.66
1962	4705	3188	1518	32.26
1963	5308	3424	1884	35.49
1964	5172	3352	1820	35.19
1965	5060	3260	1800	35.57
1966	5490	3414	2075	37.80
1967	5444	3347	2097	38.52
1968	5139	3106	2032	39.54
1969	4838	2834	2003	41.40
1970	5078	2756	2322	45.73
1971	5860	2807	3053	52.10
1972	6470	2727	3743	57.85
1973	6401	2456	3945	61.63
1974	6462	1720	4742	73.38
1975	985	39	946	96.04
Unclassified	764	674	9	1.18
Total Series E	208847	151944	56904	27.25
Series H (1952 thru May, 1959) 3/	5484	4182	1302	23.74
H (June, 1959 thru 197~~4~~5	10252	3727	6522	63.62
Total Series H	15736	7909	7824	49.72
Total Series E and H	224583	159853	64728	28.82
All Series — Total matured	38274	38250	28	.07
All Series — Total unmatured	224583	159853	64728	28.82
All Series — Grand Total	262857	198103	64756	24.64

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. Nov. 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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Contact: Robert E. Harper
964-5775

FOR IMMEDIATE RELEASE MAY 15, 1975

TREASURY SECRETARY SIMON NAMES ALLEN M. STEELE
U. S. SAVINGS BONDS CHAIRMAN FOR TENNESSEE

Allen M. Steele, President and Director, Life and Casualty Insurance Co. of Tennessee, Nashville, is appointed Volunteer State Chairman for the Savings Bonds Program in Tennessee 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 the state. He succeeds Franklin M. Jarman, Chairman, Genesco, Inc., Nashville, who receives the Treasury Department "Award of Merit".

Steele was born in Franklin, Tenn., in 1917. He attended both Davidson College, Davidson, N. C., and Vanderbilt University, Nashville, earning a BA degree in 1939 and an LLB in 1941. During World War Two, he served in the Army Air Corps and rose to the rank of captain. He earned the Distinguished Flying Cross, Air Medal, and Colonial Medal with Sahara Bar (France).

After the war, he returned to Tennessee to practice law. He joined the Life and Casualty law department in 1946, and became General Counsel in 1955. Before assuming his present position he was Executive Vice President and General Counsel.

Steele is active in many business, civic and professional activities, including -- Director, American General Insurance Co.; Director, Third National Bank in Nashville; Director, Tennessee Natural Gas Lines, Inc.; Chairman of the Board, WLAC, Inc., WLAC-TV, Inc.; Member of the Board, Nashville Symphony; Trustee, Vanderbilt University; Vice President, Middle Tennessee Boy Scout Council, and Chairman Metropolitan Nashville American Revolution Bicentennial Commission.

He is married to the former Damaris Witherspoon. They have five children.

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FOR RELEASE ON DELIVERY 576

ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE CONFERENCE BOARD
NEW YORK CITY
MAY 15, 1975

I welcome this opportunity to appear before you today and especially to see so many old friends. The Conference Board has a well-earned reputation for assembling top-flight audiences for discussions of our economy, and I am delighted to find that today's gathering is no exception.

Last year, when I was spending a good deal more of my time on energy matters, we began within the Administration to try to convey to the American public that we should not devise an energy policy that addressed only our immediate problems. Instead, we should recognize that we were dealing with three different time frames: the energy problems of the immediate future, those of roughly the next 3 to 5 years, which we called middle-range, and those beyond 5 years, which we called long-range. Our point was that every decision made today had an impact upon all three time frames and therefore we had to act with a view not only toward the present but toward middle and long-range future as well. At first there was some skepticism within the Administration whether the concept was too sophisticated, but as I have learned, it is always wrong to underestimate the intelligence of the American people. That approach to energy is now well understood in most of the country and within the reasonably near future, I am hopeful that it will be translated into actual policy in Washington.

I wanted to preface my remarks today with that tale about our energy policy because I believe the time has come to begin thinking about our economic policy in much the same way. For understandable reasons, most economic policy makers have been preoccupied recently with the challenge of ending the recession and slowing the rate of inflation. Now that we are beginning to emerge from the depths, however, it is urgent that we begin shaping our economic policies to meet not only today's needs but those of tomorrow as well. If we want to regain a pattern of durable growth, we must put our economy on a course that is sustainable over the long-term both politically and economically.

Today, I would like to talk very briefly about the prospects and needs of our economy--as I see them--on a short-range, middle-range, and then a long-range basis.

WS-308

The Short-Range Prospects

It is no secret to anyone here that our immediate economic prospects are much brighter now than they were only a few months ago. Since late last year, there has been a basic improvement in many different sectors of the economy. In the closing months of last year and early this year national output fell substantially in real terms. But there is a world of difference between the situation now and the situation then. Late last year consumer purchases were falling along with production, and inventories of unsold goods were piling up. This year consumer purchases have turned around, and the inventory backlog has been reduced rapidly. That process had to get underway before the economy could recover.

There are a number of hard facts that attest to the improvement in the underlying economic situation:

-- Retail sales rose at more than a 10 percent annual rate in the first quarter of this year after a decline of about the same magnitude in the fourth quarter of last year. The preliminary estimate for April is slightly above the first quarter average.

-- The inflation rate has fallen farther and faster than anyone expected, instilling greater confidence in consumers and investors.

-- As the combined effects of a lower inflation rate, higher wage settlements, and the tax rebates help to restore real earning power, there should be continued improvements in retail sales.

-- In April, although the unemployment rate edged up to 8.9 percent, there was an increase in employment for the first time in half a year. The job layoff rate has fallen, along with initial claims for unemployment insurance, which has a favorable impact on public confidence as well as on future prospects for unemployment.

-- As monetary policy has eased and the inflation rate has subsided, there has been a massive inflow of savings into our thrift institutions. This process sets the stage for a recovery of the housing industry.

-- In addition, surveys show that consumer confidence has been reviving modestly but steadily from the lows of late last year, which will help to sustain the favorable trends already underway.

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-- There has also been a definite air of optimism in the stock market where prices are up very substantially from the low point in 1974. Some ups and downs in the market can always be anticipated, but the general atmosphere has improved greatly.

The economy is thus poised for a healthy recovery. Because of the lag in our statistical information, we never know exactly where we are today, only where we have been--and not always then with great precision. But the overwhelming weight of evidence suggests that we are near or at the bottom of the current recession and from here on the situation should be improving. The worst of the recession is thus behind us.

Prospects for the Middle Range

As the recession nears its end, the most pressing question we face is what shape the recovery will take. Will it be vigorous? Will it be sustained? Or do we face a sorrowful repetition of the boom and bust cycles of the past?

Clearly, our basic objective in the next year or two--the middle range as I would call it--is to ensure that our recovery is strong enough to reduce unemployment but does not proceed so rapidly that we sacrifice the prospects for sustained, durable progress. Above all, we must resist the temptations of highly stimulative fiscal and monetary policies. The tax reduction that was enacted, along with the Federal deficit , will provide a strong boost to the economy. At the same time, however, a number of expensive Federal spending programs are now being seriously considered in the Congress on the theory that they are needed to speed up the recovery. Most often, the effects of new spending programs are not felt for a year to 18 months. Programs enacted in coming months would not pump stimulus into the economy until we are already moving toward full capacity, and they would thus contribute significantly to new inflationary pressures.

A second danger of oversized Government deficits would arise in our private capital markets. For several months, I have been emphasizing that deficits in the range of $50 to $60 billion--the range that the Administration has set as a ceiling--will create some strains in our financial markets, but they should be manageable. However, deficits in the magnitude of $80 to $100 billion would be clearly excessive and dangerous.

As I have stressed, the critical danger would arise not this year during a period of economic slack but next year and thereafter when the recovery takes hold and we have a rising tide of private and public demands for funds. It is well to remember that while our recession is perhaps 75 per cent over, the borrowing to finance our deficits is only 25 per cent completed. Based on the President's budget and current enactments, we expect that the Treasury will need to borrow some $75 billion in funds this calendar year--a billion and a half dollars a week. In 1976, if the outlay totals projected in our Congress are an accurate projection and if there is an extension of major tax provisions, our borrowing needs could reach $84 billion.

I often hear that we should ignore the consequences of inflationary policies until next year or thereafter. Let me tell you this: nothing could be more short-sighted. If we engage in irresponsible fiscal or monetary policies this year--if we try to spend our way out of this recession at a breakneck pace--it will be too late to worry next year: inflation will already be galloping down upon us. Fortunately, the American people show every indication that they understand the cruel hoax posed by huge new Federal deficits and they are standing with the President in opposing them.

The immediate impact of huge Federal demand during a period of recovery would depend, of course, upon the monetary policy of the Federal Reserve. Indeed, monetary policy is going to be a critical element in shaping our economic prospects both now and in the future. If, as the recovery takes hold, oversized Federal deficits create strong competition for funds and the Federal Reserve pursues a moderate policy, there is a possibility that we would drive up interest rates and abort the process of recovery. The other alternative is that the Federal Reserve might seek to accomodate the enormous borrowing requirements of the Federal Government, as well as those of the private sector, by creating a more rapid growth in money and credit.

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That might postpone the adverse impact on the recovery for perhaps a year or two, but the consequences of that action would soon catch up with us in the form of a reaccelerated inflation.
Both alternatives, then, would have highly undesirable results, and it seems clear that we would be far wiser to avoid policy decisions which would force us to make such a Hobson's choice.

Let me emphasize that I am not predicting that these events will transpire; rather, I am warning of the possible results of misguided fiscal and monetary policies. And let me also add that I have been heartened by the recent debates on this matter within the Congress and by the efforts to impose a ceiling on the size of our deficits. The steps taken by the Congress in recent days reflect a growing awareness in our country of the need for fiscal and monetary responsibility, and I am increasingly hopeful that this awareness will become the foundation for sound policies that will guide us through the next few years.

The Long-Range Future

Even as we decide upon policies for the recovery period, it is also imperative that we begin making decisions that will determine the shape of our economy toward the end of this decade and beyond. As leaders of the business community, you know that your investment decisions must be governed by your expectations not only now but down the road. Yet, in Washington, the long-range is too often defined by only one date: the day of the next election. I hope we are beginning to learn from our mistakes of the past that good economics is truly good politics.

Looking toward the end of this decade and beyond, it is clear that there are many different challenges before us, ranging from the need for greater self sufficiency in energy to the requirement that we develop more effective forms of international economic cooperation. Let me focus briefly on three of our long-range needs that I believe to be of special significance:

First, we must achieve a basic shift in our domestic policies away from personal consumption and enormous government spending and toward greater savings and capital formation.

It is an economic fact of life that increased productivity is the only way to increase our standard of living, and yet in recent years we have not adequately met the capital investment requirements that are necessary to support an expanding economy. We are rapidly expanding government payments to individuals -- they have doubled in 10 years -- but we are neglecting to provide adequate incentives for capital formation within the private sector.

The record of capital investment in the United States since 1960 has been the lowest of any major industrialized country in the Free World. Our figures show that from 1960 through 1973, private investment in the United States averaged about 17.5 percent a year of our GNP. By comparison, investments averaged percent a year of the GNP in Japan and percent in Germany and France.

Among the many factors which help to account for this record in the United States, one of the most important has been the strong orientation within our society toward personal consumption and government spending. Both have diverted funds from private investment needs. A related part of the problem has been the serious deterioration in corporate profits since the mid-1960s. Too many people misunderstand the role of profits within our society and have an exaggerated view of what those profits are. After taking into account the effects of inflation and outmoded accounting practices, the facts show that after-tax profits have dropped by 50 percent since 1965. We have been and remain today in a profits depression.

Economists can offer a number of other reasons which help to explain our capital investment performance, but none of them contradicts the conclusion that our investment levels have been inadequate. Experience has amply demonstrated that our inflation and unemployment problems of today have been created in part by capacity shortages, especially the strains that developed in early 1974 in energy and raw materials. The continuous deterioration of our international trade balance during the 1960s, when the dollar was overvalued, was also at least partly the result of the loss of competitiveness for U.S. goods.

Over time, a slow rate of capital investment can cast a long shadow over a nation's economic future. It is no accident that the United States -- with one of the lowest rates of capital investment among Western nations -- has also had one of the poorest records in productivity gains as well as in overall economic growth. During the decade of the 1960s, the average annual rate of real economic growth for the 20 nations belonging to OECD ranged from a high of 11.1 percent for Japan, to a median of about 5 percent for Australia, the Netherlands and Norway, to a low of 2.8 percent for the United Kingdom. The United States during this period experienced an average growth rate of 4 percent a year -- 17th among the 20 nations.

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Looking ahead, it is obvious that our capital investment needs will be greater -- much greater, in fact -- than anything we have experienced to date. There is a consensus within our society that we need to increase the quantity and quality of housing; develop new energy resources; improve the quality of our environment; rehabilitate the existing transportation system and develop a better urban transportations system; continue the mechanization of agriculture; construct new office buildings, communication system, medical facilities, schools, etc., as well as simply to replace and modernize existing plant and equipment.

Plainly, enormous amounts of money will be needed. Our best estimate -- one that is based on studies by the Department of Commerce, General Electric, and others -- is that our total capital needs in the eleven year period from 1974 to 1985 will be in the range of $4-1/2 trillion. By comparison, during the eleven year period from 1962 through 1973, our total outlays for capital investment in the United States were $1-1/2 trillion. Thus, in coming years, our capital investment needs will be approximately three times the level of the recent past.

History will ultimately judge us, I believe, not on the way that we meet our short-term problems but on the way that we rise to this more fundamental long-range challenge of reinvigorating our free enterprise system through an enormous infusion of capital investment funds.

A <u>second</u> and related challenge -- and one that I cannot address today with as much attention as it deserves -- is the equally important need to curb the growth of big government in the United States. No one can be so close-minded as to ignore the many benefits that government brings to our society, but the recent growth of government has not only generated many of our economic problems -- especially our most fundamental problem, which is inflation -- but has also become a threat to our basic liberties.

It took 186 years for the Federal budget to reach $100 billion, a line it crossed in 1962. Only nine more years were required to break the $200 billion figure, and only four years to crack the $300 billion barrier -- a record we are setting this year. Government spending now accounts for about one-third of our GNP -- almost triple the amount of pre-Depression days -- and if recent trends in income transfer payments continue, total government spending will dominate as much as 60 percent of our national economy by the year 2000. Can there be any doubt that when a government controls over half of an economy it will also control the personal lives of its citizens? The answer is self-evident.

Monetary Policy has also been a culpril over the past decade. Since 1965, the rate of growth in the money supply has been averaging 6 percent a year -- more than double the rate of the previous decade. It should be no surprise that during this same decade of excessive monetary stimulation inflation has also become a chronic problem.

Beyond fiscal and monetary policies, President Ford and I and others within the Administration have been trying to focus greater public attention on the growing dangers of government regulation. Federal regulatory agencies now exercise direct control over air, rail and truck transportation, power generation, television, radio and the securities market -- industries that account for 10 percent of everything made and sold -- and exercise indirect control over much of the rest of our private economy. While initially set up for sound reasons, the regulatory process has become enormously complex, cumbersome, inefficient and overly protective of the industries it regulates -- all at the expense of the consumer. The Interstate Commerce Commission, for instance, now has on its books some 40 trillion rates, and 400,000 new tariff schedules are proposed each year to tell the transportation industry what it can charge. Economic wastage from the regulatory process now ranges into the tens of billions of dollars.

We need to take a fresh look at the entire regulatory process. Many of these regulations were originally designed to protect the consumer. Too often, their net effect today is to gouge him.

The <u>third</u> and final long-range challenge that I want to touch on <u>today</u> is the need to change the nation's vision of the future. As Government has provided more and more benefits to individual citizens and the foundations of the free enterprise system have been eroded, a vast number of Americans have come to place their hopes for the future not upon themselves, nor even upon private enterprise but upon the largesse of the government.

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One of the so-called "mistakes" that I have made in Washington is to ask people to begin taking a longer and different view of our future. It seems to me that the job of government officials is to work toward turning over to our children and grandchildren a country that is better and stronger--that offers greater spiritual and personal rewards--than the country we have inherited. And to me, that goal can only be accomplished if a spirit of freedom and personal reliance is restored. Unfortunately, that approach has not always prevailed. We have become too accustomed to living only for today. In a very real sense, as we have piled one government deficit on top of another, we have been burning the candle at both ends--living off our inheritance and mortgaging our future at the same time. These policies must be reversed--for our children's sake, as well as our own.

Let me be clear: the government can and should continue to provide benefits to those in need, and to serve many positive social ends, but we can accomplish that without fatally weakening our free enterprise system. We are allowing the pendulum to swing too far toward a centralized state. To me, that is the underlying issue in many of our current debates over economic policy, and it will be up to each of us to help correct the balance.

Thank you.

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

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FOR RELEASE ON DELIVERY
THURSDAY, MAY 15, 1975

STATEMENT BY THE HONORABLE JOHN M. PORGES
UNITED STATES EXECUTIVE DIRECTOR
OF THE INTER-AMERICAN DEVELOPMENT BANK
BEFORE THE SUBCOMMITTEE ON FOREIGN OPERATIONS
OF THE HOUSE COMMITTEE ON APPROPRIATIONS
MAY 15, 1975, at 1:00 P.M. EDT

Mr. Chairman, I am happy to appear before this Subcommittee and to join the Administration in requesting $275 million for the Inter-American Development Bank's Fund for Special Operations (FSO). This Fund is the source of lending to support projects largely in the poorest Latin American countries. The amount we are requesting represents the final installment of a U.S. contribution, totalling $1.0 billion, which was negotiated by the Executive Branch in April, 1970, and authorized by the Congress in legislation enacted in December, 1970, and March, 1972.

I estimate that about $90 million in convertible currencies will remain uncommitted in the FSO at the end of the present calendar year. This margin would be so small as to preclude meaningful planning and processing of applications for funding in 1976. This

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expectation is based on projected dollar lending from the FSO of approximately \$410 million in 1975, as compared with \$342 million in 1974, and \$315 million in 1973. The \$275 million requested by the Administration would provide for carryover of about \$365 million at the end of 1975. This alone would not suffice to maintain lending in 1976 at the contemplated 1975 level; however, it would permit lending to go forward in an orderly fashion in anticipation of additional funds that should become available in the latter part of 1976.

The Fund for Special Operations is an extremely important part of the Inter-American Bank's structure. The FSO has financed, in all member countries, socially important and very worthwhile projects that are not, however, likely to generate a stream of income sufficient to amortize Ordinary Capital-type financing. Examples of sectors so financed are health, education, and rural water supply.

I want to emphasize that, in accordance with established Bank policy and at U.S. urging, the most developed Latin American members are receiving a declining amount of FSO resources. FSO convertible currency commitments

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to Argentina, Brazil, Mexico, and Venezuela dropped from $90 million in 1973 to $68 million in 1974, and are expected to be substantially lower in 1975. Venezuela voluntarily refrained from requesting any FSO (and also Ordinary Capital) loans in 1974 and we anticipate that the other three advanced countries also will not receive convertible currency loans from the the FSO after 1975. This will enable the Bank to limit its soft-term lending to the neediest member countries and emphasize those sectors that have the greatest direct impact on low-income groups, such as agriculture, education, health, and water supply and sewerage.

In addition, the Latin American member countries contribute their own currencies to the FSO and the Bank has been using an increasingly large proportion of these resources for loans in the contributing country. Under a special four-currency agreement, the Bank also can lend currencies of its most developed member countries -- Argentina, Brazil, Mexico and Venezuela -- for projects in the other member countries. In brief, the Latin American countries are financing through the Bank a greater share of their own economic development needs.

Members of the Subcommittee know that the 1975 Appropriations Act requires that of the total of $225 million approved for the IDB's FSO, $50 million was approved only for specific designated uses ($15 million for savings and loan associations, $10 million for credit unions, and $25 million for cooperatives). We are sympathetic with the main thrust of Congress's desire to see that an increasing proportion of IDB lending directly benefits the low income groups in Latin America, but we believe that earmarking is not the appropriate way to achieve this objective.

The IDB, in fact, has done a considerable amount of lending to benefit the poor. In agriculture, for example, about $1.6 billion, or over 21 percent of total IDB lending, can be directly related to projects designed to help Latin America's low income rural sector. Between a quarter and perhaps as much as a third of the Bank's total commitments for agriculture have benefitted small farmer cooperatives and other types of small farmer groups. Also, IDB has helped improve living standards of low income sectors in Latin America's cities through loans totalling more than $1 billion for water and sewerage systems, housing, and urban renewal.

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We agree that the IDB should be doing relatively more to help the low income groups and I am continually pressing Bank management in that direction. Other directors agree with this general thrust. However, it is not easy to find technically sound projects which effectively reach the poor. And in some situations these projects may not be given the highest priority by the borrowing country partly because other projects may have higher economic payoff.

In any case, I do not believe that earmarking is the way to approach this problem. The Bank is already making substantial loans to cooperatives and is programming more for this purpose during this year than the earmarked amount. The Bank is also proceeding with a substantial grant to further the development of credit unions in Latin America. This type of assistance promises to be more effective than loans for credit unions at this juncture when many potential borrowers among existing credit unions are mainly urban and middle class-oriented. In Latin America the real need is to spread credit union activity to rural areas and productive activities, and I think the IDB grant approach is well suited to the present situation. Finally, since IDB lending to savings and loan associations in Latin America would benefit mainly the middle and upper class, such lending would be inconsistent with the IDB's and our own general development thrust.

The benefits would be far outweighed by the rigidities if earmarking were introduced in the Bank's operations. First, the potential effects could well be contrary to the multilateral nature of the Bank and to the interests of the United States. Second, the earmarking could establish a precedent for other special interests and for other governments to insist on similar special conditions. The President of the IDB has voiced serious concern that the introduction of earmarking might lead to an unmanageable operational situation in the IDB. In view of this situation, the Administration is requesting, and I am supporting very strongly, the deletion of the ear-marking provisions that were attached to the Appropriations Act approved by Congress in March, 1975. This does not mean, however, that we disagree with the Congressional mandate that the IDB should increase its efforts to do more lending aimed directly at helping the low income groups in Latin America. As I have tried to indicate, quite the contrary is true.

Let me turn now, Mr. Chairman, to the question of Ordinary Capital. I expect the Bank to run out of these resources to make new commitments well before the end of 1975. For this reason, after consultations with the Congress, the Executive Branch will soon be engaging in talks with other member countries on the replenishment

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of IDB Ordinary Capital resources. Later this year, the Administration will be seeking authorization of U.S. participation in the 1976-78 replenishment at approximately the same level -- about $1.8 billion -- as in the last replenishment. This will involve a request for appropriation of some funds in FY 1976 for subscription to capital shares, most of which will be callable only. There is no plan to request any appropriation for the FSO in FY 1976 beyond the $275 million remaining under our commitment of April, 1970, and currently under consideration.

It would be helpful, at this point, Mr. Chairman, to place our current appropriations request and our ideas about future requests in the context of what we have already achieved in burden-sharing. Negotiations have been completed for a group of 10 European countries, Japan, and Israel to join the IDB. Those countries have pledged themselves to contribute approximately $375 million in cash to the FSO over the three years 1976-78. We expect these countries to make available the first of their resources for the FSO in the latter part of 1976 after they have completed their internal government procedures and approvals for entry into the IDB.

However, burden-sharing should not be limited to the industrial countries. We also look for the most advanced Latin American countries to make some of their contributions to the upcoming replenishment in convertible currencies to the FSO. These contributions would occur largely in 1977 and 1978, and would not have any impact on available commitment authority in 1976. Members of the Subcommittee already know that the Venezuelan Government has established a $500 million Trust Fund for Ordinary Capital-type lending operations by the IDB. A total of $160 million of this Fund will be committed during this calendar year, but this will not entirely bridge the gap caused by our projected shortage of Ordinary Capital. Contributions from non-regional members and the most developed Latin American countries will reduce the financial burden for the United States. By no means, however, do they eliminate the need for U.S. funding of the IDB in the future.[1]

The IDB supports economic and social development in a part of the world of special interest to the United States. For this reason the United States was a key supporter of the Bank's establishment in 1959. The IDB has since become a leading source of official financing for Latin

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America. Drawing the bulk of its staff from Latin American member countries, the IDB has been in a unique position to apply its thorough knowledge of the region toward economic development. In many fields affecting low income groups -- such as rural water supply, self-help housing, and health -- the Bank has been an innovative lender. It has also assisted private enterprise in its lending through development finance companies, and to farmers by its loans through agricultural and livestock credit institutions. I have personally inspected many of these projects over the past two years, and can respond to the Subcommittee on their importance and worthwhile character.

On the management side, the IDB has recently done an excellent job in containing staff growth and limiting administrative expense. It has been in the vanguard among development banks in establishing a Group of Controllers which is independent of management and responsible only to the Board of Directors. Thus far, the Group of Controllers has completed 13 reports which are, in fact, operational audits and which enable the Board of Directors to have close oversight of the Bank's activities.

The Committee and the Congress have also been concerned about the follow-up on IDB loan projects. In this respect I can report an active program of inspection trips to the field covering all of the institutions. These reports on trips have yielded concrete evidence that IDB loans are contributing significantly to economic and social development in Latin America. Following the IDB's annual meeting in Santiago, Chile, last year, members of the Congress and other members of the U.S. delegation had the opportunity to inspect specific IDB-financed projects being implemented or completed. We are now organizing a similar program of project visits in the Dominican Republic during this year's annual meeting May 19-21 and in three other member countries immediately following the meeting.

To summarize, Mr. Chairman, I think the IDB is a well-run regional development Bank. The burden of providing economic assistance is now being shared more equitably with prospective non-regional members and with the more advanced regional countries. The Bank is making a successful contribution to the growth and development of an area of key importance to the United States. For all these reasons, it deserves our continued strong support and I recommend that the Subcommittee approve the Administration's appropriations request for

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NEWS

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FOR RELEASE ON DELIVERY
THURSDAY, MAY 15, 1975

STATEMENT BY THE HONORABLE REX BEACH
UNITED STATES EXECUTIVE DIRECTOR
OF THE ASIAN DEVELOPMENT BANK
BEFORE THE SUBCOMMITTEE ON FOREIGN OPERATIONS
OF THE HOUSE COMMITTEE ON APPROPRIATIONS
MAY 15, 1975, AT 1:00 P.M. EDT

Mr. Chairman, I appreciate the opportunity to appear before you and the other members of this distinguished committee today in support of the Administration's request for FY 1976 of $170.6 million as part of the U.S. contribution to the Ordinary Capital of the Asian Development Bank (ADB) and the second stage U.S. contribution to the Asian Development Fund (ADF). The ADF is the concessional lending arm of the Bank.

First of all, Mr. Chairman, I want to tell you and members of this Committe of the Bank's positive response to Congressional appropriation in March this year of $50 million of Special Funds for the Asian Development Bank and $24.1 million for ADB Ordinary Capital. I believe these appropriations emphasize both to donor countries as well as recipient members of the ADB, that the United States will continue to support the Asian Development Bank. This is a matter of crucial importance to the future of the Asian Development Bank and its effectiveness in promoting economic growth and stability in Asia.

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I want to point out that the Asian Development Bank has effectively served U.S. interests in Asia. It is contributing to the economic growth and social development of many countries that are close friends and allies of the United States such as South Korea, the Philippines, Thailand, Pakistan and Indonesia. To continue serving U.S. interests in Asia, the ADB must have adequate resources at its disposal.

Let me first discuss the FY 1976 request for $120.6 million for the Ordinary Capital of the ADB, of which $24.1 million would be paid in, and $96.5 million in the form of callable capital. These amounts are part of the $362 million authorized by Public Law 93-537 last December as the total U.S. contribution to the ADB's first replenishment of Ordinary Capital.

As you know, the Congress appropriated only the paid-in capital portion -- $24.1 million -- of the Administration's FY 1975 request. The Executive Branch believes this Congressional action reflected a desire to proceed with some subscription to the Bank's Ordinary Capital increase. We are therefore subscribing to additional shares but only to $120.1 million, or one-third of the authorized amount. This subscription will raise the U.S. voting power in the ADB to only about 10 percent from its present low level of 6.8 percent.

You will note that we are again requesting an appropriation of callable capital.

Of our $121 million request, 80 percent, or $96.5 million, is callable capital to be used as a guarantee against Bank borrowing in private capital markets. The circumstances in which callable capital would actually be required are unlikely in the extreme. Nevertheless, in the case of the ADB, which is still a relatively young institution, we believe it would be desirable to appropriate this callable capital in order to help the Bank in establishing its creditworthiness in the international capital markets, particularly in the United States market.

Twenty percent of the requested $121 million ($24.1 million) will represent a U.S. budget outlay. And, of this, only $9.68 million represents an immediate cash payment to the Bank since the remaining $14.52 million will be held by the Bank in the form of non-interest bearing promissory notes which will be encashed over several years.

The Administration's FY 1976 request for $50 million for the Special Funds of the Asian Development Bank, would provide for the U.S. second stage contribution to the Asian Development Fund. The United States completed its first stage contribution of $100 million to the ADF this spring in the Congress appropriated a second $50 million contribution. As was the case in the past, arrangements are being made for other countries to go ahead with their second stage contributions by June 30, 1975 so that the ADB can continue its concessional lending operations through the summer. For orderly lending operations to go forward to the poorest of the ADB's borrowing countries, it is important for the U.S. to participate in a timely manner.

Appropriation of this $50 million will bring the total U.S. contribution to the Bank's Special Funds to $150 million. Together with other countries' contributions on the order of $567 million plus set aside resources from the ADB itself, this would provide some $775 million in Special Funds resources by December 31, 1975. By the end of 1975, however, the ADB expects to have committed $740 million of this total. Therefore, in early 1976, there will only be about $35 million of these concessional funds at the Bank's disposal for further commitments.

The ADB is proposing that a replenishment of the concessional resources of the ADF take place early in 1976 to provide resources for the 1976-78 Special Funds lending targets. ADB management has proposed a replenishment of $1 billion. At the recent ADB Annual Meeting, the Bank held an initial discussion with donor member

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countries on the proposed Asian Development Fund replenishment. The U.S. representatives were careful to make no comments as to any level of U.S. Government participation as we have not yet consulted even informally with the concerned Congressional Committees. Moreover, we pointed out that in FY 1976 we must concentrate on completing our contribution to the second stage of Special Funds replenishment.

Mr. Chairman, the Asian Development Bank is a regional bank that provides a cooperative framework for regional borrowers as well as lenders and non-regional donors to work for the economic development of Asia. An example of this cooperation is the informal agreement that India is not a borrower, thereby enabling the Bank to use its scarce lending resources for projects in the other disadvantaged regional countries.

As a regional institution headquartered in Asia, the ADB has developed an expert staff in dealing with Asia's development problems. Although a young institution, the ADB's lending in 1974 showed its ability to respond to the development requirements of its borrowing member countries. The Bank, for example, has recognized the importance of increasing food production. As a consequence, ADB financing of agricultural projects rose almost three-fold in 1974, as compared with 1973. The Bank has also been increasingly attentive to the social impact of its projects . focusing on the problems of the small farmer in agricultural projects, and on the lower income groups in water supply projects. The Bank's lending and technical assistance help to increase productivity and to bring modern technology and managerial expertise to the rice fields, industrial plants, electric power systems, and farms of Asia. The $2 billion that the Bank has lent so far is modest when compared to the economic development needs in the region. I believe that the Bank has played a vital role in helping to mobilize additional capital totaling some $3 billion which complemented ADB project financing.

Through the end of last year, the main recipients of ADB loans have been Korea which received $336 million; the Philippines, $242 million; Pakistan, $238 million; and Malaysia, $204 million. Thus the United States participates in providing assistance to its friends and allies in Asia in amounts far exceeding the total of U.S. contributions to the ADB.

In closing, I can firmly say the Bank's accomplishments in contributing to the economic growth of the developing countries in Asia warrant U.S. support. And through our active participation we can give concrete evidence of our interest in the region which is particularly important at this juncture of U.S.-Asian relations.

As Secretart Simon pointed out in his speech at the ADB Annual Meeting in Manila last month, Asia has a special significance for the United States. To those nations

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present at the meeting and to the world, he echoed President Ford's promise that the U.S. would continue to work cooperatively with others in maintaining the security and in building the prosperity of the region. In an increasingly interdependent world, the United States, as a nation of the Pacific as well as the Atlantic, must remain involved. The competence of the Asian Development Bank is a strong asset in assisting our efforts to achieve these goals.

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Contact: L.F. Potts
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FOR IMMEDIATE RELEASE May 15, 1975

TREASURY ANNOUNCES TENTATIVE MODIFICATION OF DUMPING FINDING ON POTASSIUM CHLORIDE FROM CANADA

Assistant Secretary of the Treasury David R. Macdonald announced today a tentative determination to modify a finding of dumping in the case of potassium chloride from Canada under the Antidumping Act, 1921, as amended. Notice of this decision will appear in the Federal Register of May 16, 1975. A finding of dumping with respect to potassium chloride from Canada was published in the Federal Register of December 19, 1969.

The Federal Register Notice of May 16, 1975, will state in part the finding that, for a period two years from the Finding of Dumping, sales by Swift Canadian Co., Brockville Chemical Industries, Ltd., and Hudson Bay Mining & Smelting Co., Ltd., 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 at less than fair value.

During CY 1974, imports of the subject merchandise from these three firms amounted to approximately 466,000 tons valued at approximately $11,084,000.

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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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FOR IMMEDIATE RELEASE
Friday, May 16, 1975

FOR INFORMATION CALL:
(202) 456-6757

COUNCIL ON WAGE AND PRICE STABILITY FILES BEFORE CAB ON NEW TYPES OF LOW COST CHARTER TRAVEL

In a filing before the Civil Aeronautics Board today, the Council on Wage and Price Stability urged the implementation of two proposals to establish new types of low cost charter travel (one-stop inclusive tour charters and the special event charters). Both types of charters are designed to make low-cost mass travel more widely available, presumably bringing the benefits of air transportation to a large segment of the population now unable to afford it. The Council, in urging implementation of both charter plans, recommended that no limitation be imposed in advance in the number of flights that could be operated, and that the Board incorporate as much flexibility as possible in establishing any minimum tour prices.

A copy of the filing is attached.

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Attachment

CWPS-45

BEFORE THE
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

In the Matter of SUPPLEMENTAL NOTICE OF PROPOSED RULE MAKING EDR-281B, SPDR-38B, ODR-9B One-Stop Inclusive Tour Charters	Docket 27135
In the Matter of SUPPLEMENTAL NOTICE OF PROPOSED RULE MAKING EDR-276C, SPDR-37C, ODR-8C Special Event Charters	Docket 26810

COMMENTS OF THE

COUNCIL ON WAGE AND PRICE STABILITY

George C. Eads, Assistant Director
George E. Beuschold, Economist
Government Operations & Research

Vaughn C. Williams, General Counsel
J. Michael Roach, Assistant General Counsel

Council on Wage and Price Stability
Washington, D. C. 20506

DATED: May 16, 1975

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BEFORE THE
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

In the Matter of SUPPLEMENTAL NOTICE OF PROPOSED RULE MAKING EDR-281B, SPDR-38B, ODR-9B One-stop Inclusive Tour Charters	Docket 27135
In the Matter of SUPPLEMENTAL NOTICE OF PROPOSED RULE MAKING EDR-276C, SPDR-37C, ODR-8C Special Event Charters	Docket 26810

COMMENTS OF THE
COUNCIL ON WAGE AND PRICE STABILITY

The Council on Wage and Price Stability (the "Council") hereby submits its comments on two proposals by the Civil Aeronautics Board to establish new types of low-cost charter travel, the so-called one-stop inclusive tour charters (OTC's) and the special event charters (SEC's). Subject to the comments included herein, the Council urges the adoption of the proposed rules.

Introduction

By Supplemental Notice of Proposed Rule Making dated April 10, 1975,[1/] the Civil Aeronautics Board announced that it was considering the adoption of new regulations which would authorize the operation of one-stop inclusive

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1/ See 40 Federal Register 17039.

tour charters (OTC's) by both scheduled and supplemental air carriers. OTC's were first proposed by the Board in the fall of 1974. 1/ The supplemental notice of proposed rule making responded to the comments filed with respect to the original proposal by amending the tentative regulations in a number of respects.

Similarly, by supplemental notice of proposed rule making dated April 21, 1975, 2/ the Board revised and reissued a proposal originated by it in the summer of 1974 3/ to create another new type of charter service designated special event charters (SEC's).

Both of the new types of charters are designed to make low-cost mass travel more widely available, presumably bringing the benefits of air transportation to a large segment of the population now unable to afford it.

The one-stop inclusive tour charters are basically a liberalization of the existing inclusive tour charter (ITC) concept through the elimination of the ITC requirement that the trip include overnight stops at three widely separated points. Apparently that feature of ITC's has severely limited their appeal, particularly in resort-type markets (such as Honolulu and Las Vegas), precisely the sort of

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1/ EDR-281, SPDR-38, ODR-9, at 39 Federal Register 39572 (November 8, 1974).

2/ See 40 Federal Register 18003.

3/ EDR-276, SPDR-37, ODR-8, at 39 Federal Register 22430 (June 18, 1974).

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destinations for which the greatest demand seems likely. In addition, the OTC concept has been considered by the Board, at least tentatively, as a replacement for the affinity group charters which now form the mainstay of charter air transportation. Enforcement of the affinity charter rules has, over the years, proven to be both highly burdensome and unworkable. More important, such charters -- available only to specified "members" of various organizations -- are discriminatory in a way repugnant to the Federal Aviation Act.

The special event charters, as proposed by the Board, are a variation of the OTC's, tied to the occurrence of a "special event" of, for example, a sporting, social, religious, education, cultural, or political nature.

Both charter rules are available only in conjunction with a "package" including baggage handling, ground transportation and overnight accommodations. 1/ These and several other restrictive features, including specific limitations on trip duration (minimum durations for OTC's, maximums for SEC's), are intended to prevent diversion of traffic from regular scheduled services. Under consideration is a minimum daily price for the ground package.

1/ One day special event charters would not, of course, include overnight accommodations.

The Council urges the Board to implement both regulations -- subject to the modifications suggested hereafter -- so as to make available to the traveling public these additional low-cost travel options.

I. The OTC & SEC Rules Should Be Adopted And Implemented As Soon As Possible.

The Council has a direct interest in these charter proposals. The Council was created by the Council on Wage and Price Stability Act of 1974, on August 24, 1974. 1/ The Council's purposes under the Act are, generally summarized, to monitor the inflationary impact of activities in both the public and private sectors of the economy. Section 3(a)(7) of the Act expressly directs the Council 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.

Further, Section 5 of the Act requires the Council to report its findings and recommendations for the containment of inflation to the President and Congress.

Insofar as air transportation is concerned, we are particularly concerned with the sharp rise in scheduled air fares, amounting to nearly 20 percent over

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1/ Public Law No. 93-387, 12 U.S.C. 1904 note.

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the last 18 months. Understandably some of this increase has been attributable to substantially higher fuel costs over this period which have been passed through in higher fares. Nonetheless, with current conditions in the industry being what they are, we believe that lower cost air transportation must be made available to bring demand and supply into better balance. Recent CAB data on traffic and capacity in the domestic system indicates that capacity has continued to grow in the face of an actual decline in demand with the result that load factors have markedly declined. We are concerned that the sharply declining traffic levels of recent months indicate that the fare increases, together with economic conditions generally, have virtually eliminated the discretionary traveler from the air transportation market. The solution, we believe, lies in a reduction in the cost of air travel so as to generate new business, not in further fare increases in an attempt to recoup from the remaining passengers the revenue lost as a result of traffic declines.

Our concern goes beyond a conviction that the general level of airline fares is too high, however. As we have commented on several recent occasions, we believe that the basic structure of airline service is in need of overhaul. 1/ Specifically, the intense and narrow focus of the present system (with the partial exception of the North Atlantic market) on individually-ticketed transportation on regular scheduled flights is economically unsound. In our view, there exists a vast potential air transportation market consisting of highly price-sensitive discretionary travelers who could be attracted to inexpensive, mass-marketed bulk travel. Domestically, such persons are largely excluded from use of the current air transportation system. Any regulatory steps which will broaden the travel opportunities of these individuals should be encouraged.

The instant proposals would permit the introduction of extremely promising low-cost travel to the public, incorporating both charter air travel and ground accommodations in a single economical tour package. With the revisions currently incorporated in the proposals, the new charters may now be sufficiently flexible, marketable, and workable -- a considerable improvement over the original proposals.

1/ See, for example, Testimony of George C. Eads before the Subcommittee on Administrative Practice and Procedure, Committee on the Judiciary, U.S. Senate (February 25, 1975).

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Services similar to the OTC have long been successful in Europe as a means of providing consumers low-cost vacation air travel. We believe that comparable options should be made available to satisfy the public demand for such services in this country. For example, the traveling public has been quick to embrace many types of promotional or discount fares. 1/ The demand for affinity charters has been so strong as to produce well-documented abuses. 2/

Thus, while we support the adoption of the present proposals, we do not believe that they go nearly far enough. There is, for example, no inherent reason, statutory or otherwise, for the limitation of low-cost air transportation to persons willing to buy ground packages. The price of such accommodations needlessly increases the cost of the trip for those budget travelers who could make other lower-cost arrangements for accommodations at the vacation destination (such as staying with relatives).

1/ Not all such fares are desirable because they may be uneconomic or discriminatory, but they are illustrative of the demand for low-cost travel.

2/ While we realize the shortcomings of prior affinity charters on grounds of enforceability, it would be premature to propose their abolition pending a reasonable trial period to determine if a viable substitute is available.

In our view, low-cost charter travel can be marketed on an economic basis without the large number of artificial restrictions which the Board would impose in order to protect the scheduled carriers from what they apparently view as a property right to the existing level of scheduled passenger traffic. In analyzing the diversion problem, we urge the Board to reject the assumption, inherent in the position of most of the scheduled carriers, that the existing level of scheduled service is ideal and that any reduction in scheduled service as a result of the diversion of travelers to charter transportation must be avoided. Instead, the market place should be allowed to establish the relationship between scheduled and charter services. We are convinced that there is room for both a premium priced, readily available scheduled service for business travelers and for other persons who place a high value on their time and a high density, no-frill, bargain priced mass travel system for the discretionary, price-sensitive traveler.

Accordingly, we urge the Board to adopt and implement the OTC and SEC proposals. However, we view these new charters as but steps in the right direction rather than an ideal solution to the problem of increasing the availability of low-cost vacation air travel.

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II. The Proposed Rules Should Be Modified In Several Respects.

As noted heretofore, both charter proposals are severely restricted in a number of respects which will make them unavailable to a large number of potential pleasure travelers in markets in which they might be offered. As stated by the Board, the purpose of these provisions is to insure that the availability of the charters is confined to a sufficiently small percentage of the traveling public so as to prevent "undue diversion from scheduled services."

The original proposal made by the Board in 1974 elicited a substantial volume of comment from the travel industry suggesting that various aspects of the restrictions then proposed would seriously curtail the marketability of the new types of charters. In the supplemental notice of proposed rule making, the Board responded to many of these objections and, recognizing that "these proposed restrictions would go beyond their intended aim," considerably liberalized some of the features of the new charters.

While we do not profess any expertise in the day-to-day marketing problems of the travel industry, we have made comments in the sections which follow on some features of the proposed rules. As a general matter, we believe the rules are unnecessarily restrictive in limiting the availability of OTC's and SEC's. Our comments, however, assume that the Board will impose restrictions of the sort included in the draft rules.

We urge the Board to approach the design of the new charter services not from its traditional perspective with its primary focus on protecting the interests of the scheduled carriers. In the past, that approach has produced two successive types of charters (the three-stop ITC's and travel group charters) which have proven virtually unmarketable. Rather, we urge the Board to use its best efforts to devise a saleable, and thus potentially successful, product.

A. Limitations as to service in city-pairs receiving specified levels of scheduled service.

In its original proposal the Board announced its intention to limit the number of OTC's which could be operated in city-pairs receiving specified minimum levels of regular scheduled service. The purpose of the proposal was to avoid undue diversion from those scheduled services. The travel industry comments persuaded the Board that its proposal would have had various undesirable effects. We wholly agree with that conclusion.

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Nonetheless, the Board remains concerned that OTC's may divert undue amounts of scheduled traffic and invited comments on specific means of meeting this concern. We believe that no specific limitation is required at this time. As presently proposed, the OTC's contain many restrictions which would limit diversion from regular scheduled air service. The very fact that these are to be tours including ground arrangements and incorporating other limitations not applicable to individually-ticketed service is sufficient distinction to minimize the threat of diversion.

We feel strongly that any numerical limitations imposed in advance would be counter-productive to the OTC proposal. Moreover, such limitations would pre-judge the question of diversion, while this question itself is a matter of considerable controversy. We believe it desirable to allow competition and consumer preference, as exercised in a market test, to produce evidence on this issue, and we urge the Board to abandon any advance limitations in favor of a post hoc procedure for imposing restraints, such as proposed by the Board in the Appendix to the supplemental notice. Such a procedure should permit the Board to fully protect the scheduled carriers.

B. Minimum tour cost.

Alternative formulas for determining minimum OTC prices are incorporated by the Board in the supplemental notice. 1/ Several of the formulas retain some feature relating OTC prices to scheduled air fares. We believe the formula proposed by the Board on page 6 of the supplemental notice has substantial merit in that it incorporates flexibility in establishing the minimum, which would in no case exceed 110 percent of any available scheduled fare in the market but could be much lower. 2/ We do not intend to propose a specific formula but urge the Board to opt for as much flexibility as possible and, in particular, to avoid adopting a needlessly high standard such as the $15 per night proposal.

1/ Because SEC's are tied to the occurrence of special events, admission tickets to which must be included in the package, we see no necessity for imposing a minimum price. This is particularly true with respect to one-day SEC's.

2/ Specifically, the Board has proposed a formula which would establish "a minimum price equal to the total of (a) the charter price of the participant's seat, plus (b) some percentage of that seat price, plus (c) a set dollar amount per day or per night, possibly subject to a proviso that the minimum OTC price would not in any case be more than 110 percent of any available scheduled fare. For example, an appropriate formula might provide for a minimum price equal to the aggregate of 125 percent of the charter price of the participant's seat plus $10 for each night of the tour, subject to the foregoing proviso."

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C. Requisite ground accommodation, minimum duration.

The alterations made in the instant proposal from those proposed in EDR-281 concerning requisite ground accommodations and services enhance the workability of OTC's. Beyond noting that the greater flexibility thus afforded tour organizers and the traveling public is a desirable objective, we have no comments on these provisions.

The minimum-stay restrictions of OTC's are a matter of effective travel marketing and charter operating economics, and we will leave to the parties most concerned with these considerations the burden of commenting on them. The Board's revision of the originally restrictive duration limitations were presumably motivated by such comments, and the resulting increase in the flexibility of these provisions enhances the potential for marketable OTC's.

D. Advance purchase requirements/ passenger lists.

The requirement that lists of OTC and SEC participants be filed some period before the flight imposes, in effect, an advance purchase requirement not otherwise applicable to charters of this type. 1/ The Board based its original 30-day requirement on considerations of diversion and enforcement, then cut in half the advance purchase

1/ The additional statement of Members Minetti and West to EDR-281B notes that the existing three-stop ITC rule has no such advance purchase requirement.

requirement for North American OTC's upon recognition that under such a step OTC costs could be reduced, the number of OTC's could be increased, and the use of OTC's could be expanded. We submit that these goals remain adequate reasons for eliminating the advance purchase requirement altogether.

Conclusion

The Board correctly notes in the revised OTC proposal that the availability to the public of charter transportation appears to be unduly low, and commendably expresses in the instant proposals its determination to remedy this circumstance.

We support this approach and believe that, given our foregoing comments on their specific features, OTC and SEC charters are an appropriate vehicle for initiating such measures. We urge that the Board promptly initiate the proposals and remain receptive to other innovative and economical means of promoting air travel.

Respectfully submitted,

George C. Eads, Assistant Director
George E. Beuschold, Economist
Government Operations & Research

Vaughn C. Williams, General Counsel

By: J. Michael Roach

J. Michael Roach
Assistant General Counsel

May 16, 1975

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CERTIFICATE OF SERVICE

I hereby certify that, in accordance with the Board's instructions in EDR-281B, I have this day mailed a copy of the foregoing comments to each person included on the mailing list in Docket 27135.

J. Michael Roach

J. Michael Roach
Assistant General Counsel

May 16, 1975

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

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FOR IMMEDIATE RELEASE May 16, 1975

Marvin J. Dessler Appointed
Chief Counsel, Bureau of Alcohol, Tobacco and Firearms

Treasury General Counsel Richard R. Albrecht has announced the appointment of Marvin J. Dessler as Chief Counsel for the Bureau of Alcohol, Tobacco and Firearms. Mr. Dessler succeeds Matthew J. Werneth, who retired at the end of December.

The Chief Counsel serves as the legal adviser to the Director of the Bureau of Alcohol, Tobacco and Firearms. This Bureau is charged with the administration of laws on the production, processing and distribution of alcoholic beverages and tobacco products, the determination and collection of liquor and tobacco industry revenues, and the regulation of firearms and explosives.

Prior to his appointment as Chief Counsel, Mr. Dessler had served as Director of the Technical Division of the Office of the Chief Counsel since July 1971. He began his Treasury service in 1961 as a Tax Law Specialist in the Internal Revenue Service.

Mr. Dessler was born in New York City, New York, April 4, 1931. He was graduated from New York University in 1952 and from the New York University School of Law in 1955. He served on active duty with the U. S. Army from 1955 to 1957.

Mr. Dessler resides in Bowie, Maryland, with his wife, Marcia, and two children.

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Contact: Richard Self
x964-8256

FOR IMMEDIATE RELEASE: May 16, 1975

DETERMINATION IN COUNTERVAILING DUTY
INVESTIGATION OF AUSTRIAN CHEESE

Assistant Secretary of the Treasury David R. Macdonald announced that a preliminary determination has been made that bounties or grants are being paid within the meaning of the Countervailing Duty Law on Austrian cheese imports. Notice of Receipt of Petition in this case was published in the Federal Register of January 15, 1975.

Under the Countervailing Duty Law (19 U.S.C. 1303), the Secretary of the Treasury is required to assess an additional duty on merchandise benefiting from the payment or bestowal of a "bounty or grant" by a foreign government or private entity. The additional duty is always equal to the amount of the bounty or grant.

The Notice of Preliminary Determination, as required under the new procedures in the Countervailing Duty Law, will be published in the Federal Register of May 20, 1975. Interested parties will be given an opportunity to submit written views concerning this action within thirty days after its publication in the Federal Register. Following consideration of all written views the Treasury will issue a final determination as to the existence or non-existence of a bounty or grant on this product, and indicate, if necessary, whether the temporary waiver of countervailing duties under the provision of Section 331(d) is to be exercised. The Treasury is required under the Law to issue final determination in this case by no later than January 5, 1976.

During 1974 approximately $15.8 million in Austrian cheese was imported into the United States.

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FOR IMMEDIATE RELEASE

May 16, 1975
Contact: John P. Plum
964-2615

SIMON HEADS U. S. DELEGATION TO GOVERNORS
MEETING OF INTER-AMERICAN DEVELOPMENT BANK

Treasury Secretary William E. Simon will lead the United States Delegation at the 16th annual Board of Governors meeting of the Inter-American Development Bank, May 19 to 21, at Santo Domingo, Dominican Republic. Mr. Simon, who serves as U.S. Governor to the Bank, will address the meeting's Second Plenary Session on May 20.

Designated as Temporary Alternate Governors in the Delegation are Stephen S. Gardner, Deputy Secretary of the Treasury, (who is scheduled to arrive in Santo Domingo May 21, replacing Secretary Simon as head of the Delegation); Charles A. Cooper, Assistant Secretary of the Treasury for International Affairs; William D. Rogers, Assistant Secretary of State for Inter-American Affairs; and John A. Bushnell, Deputy Assistant Secretary of the Treasury for Developing Nations Finance.

Congressional Advisors named to the Delegation are Robert G. Stephens (D., Ga.); Albert W. Johnson (R., Pa.); and Mark W. Hannaford (D., La.).

Development projects financed by the Bank will be inspected in the Dominican Republic during the period of the meeting. Treasury Deputy Secretary Gardner will lead a part of the delegation on brief visits to projects in Colombia (May 22-23), Guatemala (May 24-25), and Mexico (May 26-28).

Projects to be inspected include an agricultural extension school, a cattle cooperative, low cost housing development, and a university facility in the Dominican Republic; an agricultural research station, hydroelectric plant, and port storage facilities in or near Cali, Colombia; a water supply project and feeder roads in Guatemala, and a multipurpose tourist center at Cancun in Southeast Mexico.

The Bank has approved more than 800 loans since its founding in 1960, for a total of $6.9 billion. All powers of the Bank are vested in the Board of Governors, consisting of one Governor and one Alternate Governor appointed by each member country, comprising 22 Latin American nations, the United States and Canada. Primary purpose of the Bank is promotion of economic development of the member countries.

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

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FOR IMMEDIATE RELEASE May 16, 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 $5,600,000,000 , or thereabouts, to be issued May 29, 1975, 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 February 27, 1975, and to mature August 28, 1975 (CUSIP No. 912793 XL5), originally issued in the amount of $2,550,475,000, the additional and original bills to be freely interchangeable.

183-day bills, for $2,800,000,000, or thereabouts, to be dated May 29, 1975, and to mature November 28, 1975 (CUSIP No. 912793 XZ4).

The bills will be issued for cash and in exchange for Treasury bills maturing May 29, 1975, outstanding in the amount of $4,803,515,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,411,540,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Friday, May 23, 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 $500,000 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 May 29, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing May 29, 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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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE

May 16, 1975
Contact: John P. Plum
964-2615

SIMON MEETS WITH EEC REPRESENTATIVES

Treasury Secretary William E. Simon today met with representatives of the European Economic Community (EEC) to exchange views on the current world economic situation and to discuss applicable policies concerning recession, inflation, and payments inbalances.

Leading the EEC delegation was Irish Finance Minister Richie Ryan, currently President of the EEC's Council of Finance Ministers, accompanied by Wilhelm Haferkamp, (Germany) Vice-President of the EEC Commission.

Other participants in the informal discussions were Jens Otto Krag, (Denmark) head of the EC Commission Delegation to the U.S., John G. Molloy, Irish Ambassador to the U.S., Ugo Mosca, (Italy) EC Commission Director General for Economic and Financial Affairs, and Charles H. Murray, Secretary of the Irish Department of Finance.

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WS-311

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

FOR RELEASE ON DELIVERY
AT 2:00 p.m., EDT

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ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
TO THE GRADUATING CLASS
OF THE SCHOOL OF BUSINESS ADMINISTRATION
AMERICAN UNIVERSITY
WASHINGTON, D.C.
MAY 18, 1975

Dean Striner, Members of the Graduating Class of 1975, and Distinguished Guests of American University:

It is a privilege to deliver a graduation speech at any major university, but I am particularly pleased to be here this afternoon.

Before coming over, I had an opportunity to read about this graduating class, and I was impressed by the large number of you who have been working for a living while also working for a degree. Your desire to excel, no matter how high the personal cost, is precisely what we need in this country today and I want to pay special tribute to you.

I am also struck by the number of women graduating today. While women in America have achieved remarkable gains in recent years, the number of them in executive positions today is still too limited. By earning business degrees here, the women of this class will help to open the doors more widely to their own generation as well as to those who will follow.

Finally, I want to commend the younger students in the audience -- those who have not had much employment experience but want to embark upon their careers with a degree in business administration. The prevailing social attitude in our country, especially among young people, does not look favorably upon a business career. The fact that you have chosen this pursuit suggests that you are willing to think for yourself and to swim upstream against social pressures. Again, both of these qualities are very much needed in our country today, and I want to welcome you as future leaders of our society.

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One of the melancholy truths you must have learned already is that more commencement addresses have been listened to more patiently, delivered more solemnly, and forgotten more promptly than almost any other form of human discourse. I well remember my own graduation some 25 years ago when the members of my class were weary with classes and lectures. Most of us groaned at the prospect of another lecture at graduation, and we were right.

Henry David Thoreau once declared: "I have yet to hear the first syllable of valuable or even earnest advice from my seniors. They have told me nothing to that purpose." Thoreau perhaps understood the generation gap better than any of us.

Recognizing, then, that commencement addresses represent a dangerous minefield for both the speaker and his audience, I would like to share with you today a few thoughts about the future shape of our country and, in particular, the future shape of our economy.

For understandable reasons, most policy makers in Washington have been preoccupied recently with the challenge of ending the recession and slowing the rate of inflation. As students, many of you must have been worried about your own future in the job market. Now that we are beginning to emerge from the depths and the employment picture is brightening, it is urgent, however, that all of us begin to take a longer look ahead. We must begin shaping our economic policies to meet not only today's needs but those of tomorrow as well.

I have always believed that government officials should work with the view of turning over to our children and our grandchildren a country that is better and stronger -- than the country we have inherited. Unfortunately, that approach has rarely been followed. We have become too accustomed to living only for today. In a very real sense, we have had a binge of overconsumption and excessive government spending, we have been burning the candle at both ends -- living off our inheritance and mortgaging our future at the same time. The time has come to put our economy back on a course that is sustainable over the long-term both politically and economically.

Understanding the Present

Our first requirement for the future is to stop deluding ourselves about the present. Much of the rhetoric that passes as thoughtful analysis today would have you believe that our economy is on the permanently disabled list, practically ready for its final rites. It is true that we have suffered the worst economic recession since the Second World War and the worst inflation in our peacetime history. It is true that over the years we have created fundamental imbalances in our economy through policies, many of them emanating from Washington, that can only be termed misguided. But it is equally true that our economy remains the strongest and most dynamic in the world, powered by a free enterprise system that has

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given us the highest standard of living and the greatest prosperity ever known to man.

Putting the Cassandras to one side, we should recognize just how far the private enterprise system has helped to bring us in recent years:

-- Since the late 1950s, the real purchasing power of the average American family has jumped by roughly 40 percent, and that's after we account for inflation and taxes.

-- Blacks and whites have joined in this progress, as the number of poor families living in poverty has been sliced by more than a third. We still have a long way to go to achieve equal opportunity, but we are definitely moving in the right direction.

-- During this same period, the economy has created 20 million new jobs.

-- Farm families, whose income once lagged far behind the national average, now match other families in income.

-- Higher standards of living have brought not just a greater sense of material well being within our society but they have also helped to produce very tangible benefits in the form of:

-- more education, as twice as many students are going to college today as in the early 1950s;

-- a cleaner environment, as a number of our major cities have been able to improve the quality of their air; and,

-- higher standards of medical care, as we have conquered diseases such as polio and offer the best medical treatment in the world.

Nor should we ignore the fact that during your lifetimes our system has survived one of the most traumatic wars in our history, the heart-rending assassinations of several national leaders, and a Constitutional crisis in our Presidency.

There remain obvious flaws in our society and in our economy. We must work hard to correct them. Yet, in so doing, let us recognize our strengths and build upon them rather than abandoning the system that undergirds our way of life and has uniquely preserved the blessings of both liberty and abundance.

Challenges of the Future

Looking beyond the present, it is clear that in order to improve and strengthen our economic system, there are many great challenges ahead of us, ranging from the need for greater self-sufficiency in energy to the requirement that we develop more effective forms of international economic cooperation. Let me focus here on those long-range needs that I believe to be of special significance to young men and women entering the business community.

First, we must achieve a fundamental shift in our domestic orientation away from personal consumption and runaway government spending and toward greater savings and capital formation.

It is an economic fact of life that increased productivity is the only way to increase our standard of living, and yet in recent years we have not adequately met the capital investment requirements that are necessary to support an expanding economy. We are rapidly expanding government payments to individuals -- they have doubled in 10 years -- but we are neglecting to provide adequate incentives for capital investments within the private sector -- investments that mean jobs and higher incomes for everyone.

The record of capital investment in the United States since 1960 has been the lowest of any major industrialized country in the Free World. Our figures show that from 1960 through 1973, private investment in the United States averaged about 17.5 percent a year of our GNP. By comparison, investments averaged 35 percent a year of the GNP in Japan, 26 percent in Germany, and 25 percent in France.

Among the many factors which help to account for this poor showing by the United States, one of the most important has been the strong orientation within our society toward personal consumption and government spending. Both have diverted critical funds from private investment needs. A related part of the problem has been the serious deterioration in corporate profits since the mid-1960s. Too many people misunderstand the role of profits within our society and have an exaggerated view of what those profits are. After the effects of outmoded accounting practices and inflation are taken into account, the facts show that after-tax profits have dropped by 50 percent since 1965. We have been and remain today in a profits depression.

Economists can offer a number of other reasons which help to explain our capital investment performance, but none of them contradicts the conclusion that our investment levels have been inadequate. Experience has amply demonstrated that our inflation

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and unemployment problems of today have been created in part by capacity shortages, especially the strains that developed in early 1974 in energy and raw materials. The continuous deterioration of our international trade balance during the 1960s, when the dollar was overvalued, was also at least partly the result of the loss of competitiveness for U.S. goods.

Over time, a slow rate of capital investment can cast a long shadow over a nation's economic future. It is no accident that the United States -- with one of the lowest rates of capital investment among Western nations -- has also had one of the poorest records in both productivity and overall economic growth. During the decade of the 1960s, the average annual rate of real economic growth for the 20 nations belonging to OECD ranged from a high of 11 percent for Japan to a low of 3 percent for the United Kingdom. The United States during this period experienced an average growth rate of 4 percent a year -- 17th lowest among the 20 nations.

Looking ahead, it is obvious that our capital investment needs will be greater -- much greater, in fact -- than anything we have experienced to date. There is a consensus within our society that we need to increase the quantity and quality of housing; develop new energy resources; improve the quality of our environment; rehabilitate our intercity transportation system and develop new ones for our urban centers -- and all of that in addition to replacing, modernizing, and expanding our existing plants and equipment. The list is endless.

Plainly, enormous amounts of money will be needed. Our best estimate--one that is based on studies by the Department of Commerce, General Electric, and others--is that our total capital needs in the 11-year period from 1974 to 1985 will be in the range of \$4-1/2 trillion. By comparison, during the 11-year period from 1962 through 1973, our total outlays for capital investment in the United States were \$1-1/2 trillion. Thus, in coming years, our capital investment needs will be approximately three times the level of the recent past.

History will ultimately judge us, I believe, not on the way that we meet the short-term problems of recession--we will definitely overcome these--but on the way that we rise to this more fundamental long-range challenge of adopting policies that encourage less consumption and government spending and more savings and capital investment. Only if we squarely meet this challenge can we provide more jobs and a higher standard of living for all Americans.

A second and related challenge--and one that I cannot address today with as much attention as it deserves--is the equally important need to curb the growth of big government in the United States. No one can be so close-minded as to ignore the many worthy purposes that government serves. The recent growth of government, however, has not only generated and exacerbated many of our economic problems--especially the most fundamental problem of inflation--but it has also become a threat to our basic liberties.

It took 186 years for the Federal budget to reach $100 billion, a line it crossed in 1962. Only nine more years were required to break the $200 billion figure, and only four more years to crack the $300 billion barrier--a record we are setting this year. Government spending now accounts for about one-third of our gross national product--almost triple the amount of pre-Depression days--and if recent trends in income transfer payments continue, total government spending will dominate as much as 60 percent of our national economy by the year 2000. Can there be any doubt that when a government controls over half of an economy, destroying our economic freedoms, that the loss of our political and personal freedoms will not be far behind?

Monetary policy has also been a culprit of many of our economic troubles over the past decade. Since 1965, the rate of growth in the money supply has been averaging 6 percent a year--more than double the rate of the previous decade. It should be no surprise that during this same decade of excessive monetary stimulation, inflation has also become a chronic problem.

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Beyond fiscal and monetary policies, President Ford and I and others within the Administration have been trying to focus greater public attention on the growing dangers of government regulation. In a subtle but insidious way, Federal regulatory agencies have come to exercise direct control over air, rail and truck transportation, power generation, television, radio and the securities market--industries that account for 10 percent of everything made and sold--and to exercise indirect control over much of the rest of our private economy. The regulatory process was initially set up for sound reasons, but over the years it has become enormously complex, cumbersome, inefficient and overly protective of the industries it regulates. The Interstate Commerce Commission, for instance, has on its books some 40 trillion rates, and 400,000 new tariff schedules and proposes each year to tell the transportation industry what it can charge. Much of the regulatory process was originally designed to protect the consumer. Too often, its net effect today is to gouge him and hamstring industry. Economic waste arising from the regulatory process now ranges into the tens of billions of dollars.

An increasing number of business leaders are beginning to feel the same way as a merchant who recently attended a seminar conducted by one of the regulatory agencies and was told about the rules that he would have to follow. After the meeting was over, the merchant was asked if he had profited from it. "Oh, yes," he replied, "I've already bought the sign I'll be forced to keep out in front of my store--the one that reads 'For Sale'."

I believe the time has come not just for a fresh look at the regulatory process--not just another study commission--but to roll back the power of the commissions which are imposing such heavy penalties upon consumers, upon businesses, and ultimately upon our hopes for the future.

I know that many of you here today will choose careers in the government, and I wish you well in that endeavor. Public service remains one of the highest callings in our land and badly needs capable, dedicated people. Yet, I would also hope that you would carry into that service the lessons from your schooling here. I hope, for instance, that you could assist in the efforts to introduce greater efficiency and business-like methods into the operations of government. More importantly, I hope that you will remember that out beyond the Potomac are countless numbers of honest, hardworking businessmen and women and a dynamic free enterprise system that together can solve an enormous number of America's most pressing problems if only their hands are not tied by the government.

Restoring Faith in Free Enterprise

To those of you who choose to make your way within private enterprise, let me direct this final challenge--that of restoring the nation's faith in our free enterprise system.

Over the past ten years, public confidence has nose dived in nearly all of our major institutions, including our government, our churches, our labor unions, and our places of commerce, but nowhere has that loss of faith been more massive than in the case of business. A recent public poll showed that over a five year period, confidence in major companies had dropped from 58 per cent to 29 per cent--exactly by half--and among the 18 and 20-year-olds, only 15 per cent still expressed confidence in the way that business is run. Profits are considered obscene, and the image of "crime in the suites" has spread across the land. Business cannot long survive in this environment.

What can be done?

One answer is that the leaders of free enterprise must begin taking their case to the public more effectively. For instance, they must explode the myths about profits. The fact that Americans still believe that 29 cents out of every dollar of sales are captured as corporate profits, when in reality profits are less than five cents out of every dollar of sales, speaks volumes about the task ahead. But the argument in favor of business must not rest on profits, resource allocation, or efficiency alone: it must also be cast in human terms. You must make it clear that economic growth yields direct benefits to both consumers and producers. Those benefits can both expand the comforts of live and improve the quality of life. I would hope that the pains people have suffered from the recession would put the lie once and for all to the notion that zero-growth would be good for America. And remember this, too: being pro-business is not the same as being anti-people. In fact, it's being pro-people. The leaders of free enterprise--more than anyone else--must get that story across to the American public.

Not long ago, the educator and social analyst, Irving Kristol, raised the question this way: "How," he said, "have we managed to raise a whole generation of young people who do not know how their parents make a living?" It will be up to all of you to ensure that the next generation has a better understanding of the positive role that business leaders play in our society.

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Even more vital than better public education--as necessary as that has become--is that corporations show by example. Free enterprise must get on with the job of rebuilding America and showing Americans that it can indeed do the job. We know that in the years ahead, someone must develop vast new energy resources, build millions of homes that are within the price range of the average family, develop better forms of transportation, and protect our environment from industrial waste. Who is better equipped to do this than private enterprise? No one. But who will do it if private enterprise fails to respond? Government--because public pressure nearly always compels the government to fill the vacuums left in our economy by private business.

Clearly, the leaders of free enterprise must actively and aggressively rise to the challenges of tomorrow. In so doing, I hope that you will also bear in mind that the public today is not demanding just high quantity but high quality in the products it buys. I am convinced that much of the public distrust of business today arises from a sense that the quality of products is falling even as their prices are rising. Once people believe that the products they buy were made to fall apart quickly, it is not long before the marginal abuses that exist within the business system--the misleading advertising, administered prices, shady business practices, and so forth--are rolled together mentally into a general charge against the entire system. Only a vigorous effort to overcome the society's most pressing problems and to do so in a way that truly serves the public interest will dispel the damaging myths about American business today.

Members of the Graduating Class, you are receiving your degrees in business administration at a time of critical testing for business itself. The system of free enterprise as we have known it is in greater jeopardy today than at anytime in my lifetime, and perhaps in the history of our republic. Free enterprise has proven itself to be the only system that is compatible with both economic progress and the preservation of human liberty. Whatever profession you may ultimately choose, I urge you not to stand on the sidelines but to join in the struggle to maintain and strengthen that system.

Teddy Roosevelt once said so eloquently: "It is not the critic who counts, not the man who points out how the strong man stumbled, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena...who strives valiantly; who knows the great enthusiasms, the great devotions, and spends himself in a worthy cause; who, at the best, knows in the end the triumph of high achievement; and who, at the worst, if he fails, at

Twenty or thirty years from now, when your own children may be here in this hall on another graduation day, let it be said of each of you that you, too, have been in the arena, striving valiantly for a worthy cause.

Thank you.

# # # # #

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

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Contact: Alan N. Vinick
964-2776

FOR IMMEDIATE RELEASE MAY 18, 1975

EMERGENCY LOAN GUARANTEE BOARD
EXTENDS LOCKHEED GOVERNMENT GUARANTEE
FOR TWO YEARS

The Emergency Loan Guarantee Board, in a meeting on Saturday, May 17, 1975, agreed to renew the Government's guarantee of private bank credits to the Lockheed Aircraft Corporation for an additional two years to December 31, 1977.

The Board acted pursuant to its authority under the Emergency Loan Guarantee Act, passed by Congress in 1971. In that Act, Congress authorized guarantees of loans to qualified borrowers upon the Board's finding that such guaranteed loans were necessary to prevent the failure of major businesses which could have serious adverse effects on the economy. The Act imposes on the Board the responsibility to take any actions necessary to preserve or protect the interests of the Government in any guarantee extended under the Act.

Under a 1971 Agreement, the Board guaranteed Lockheed's 24 lending banks against loss of principal and interest on credits to Lockheed of up to $250 million, which are in addition to an underlying $400 million in nonguaranteed loans from the same banks.

The Board, in making its announcement, recognized that extension of Lockheed's bank borrowing agreements, including the Government guarantee, is an essential element of a Lockheed financial restructuring plan announced by the Company on May 9, 1975. The Board determined that the extension was necessary to protect the Government's interest in amounts advanced under guarantee.

WS-313 (Over)

Lockheed's financial restructuring will be accomplished in two phases. In the first phase of the plan, the 1971 Credit Agreement, including the Government's guarantee, and a later 1974 Agreement, providing a further nonguaranteed $75 million line of credit (thus far unused) will be extended for two years to December 31, 1977. Lockheed's lending banks will reduce the interest rate charged on the $400 million nonguaranteed loans to 4% from the existing rate of prime plus 1/2%. And, Lockheed will issue to the banks ten-year warrants to purchase 1.75 million shares of the Company's Common Stock at $7 per share.

The second phase of the plan, scheduled to take place prior to the end of 1975, will require Lockheed securityholders' approval for the Company to issue Preferred Stock. So long as the necessary approvals are obtained, the lending banks will convert an initial $50 million of nonguaranteed debt to a new Series A Preferred Stock. Lockheed also will issue to the banks additional ten-year warrants to purchase 1.25 million shares of the Company Common Stock at $7 per share in connection with this initial conversion. At the same time, Lockheed will offer to exchange a new Series B Convertible Preferred Stock to the holders of its 4-1/2% Convertible Subordinated Debentures, of which $125 million are outstanding. If holders of a specified minimum amount of the Debentures accept the exchange offer, the lending banks will convert up to an additional $25 million of nonguaranteed debt to Series A Preferred Stock.

In seeking the Board's approval of a two-year extension of the guarantee, Lockheed and its lending banks have agreed to a schedule providing for a reduction of the maximum guaranteed borrowings as follows:

Through December 31, 1975	$250 million
January 1, 1976 through October 31, 1976	$220 million
November 1, 1976 through October 31, 1977	$190 million
November 1, 1977 through December 31, 1977	$165 million

Prior to the end of 1975, Lockheed plans to commence the repayment of additional guaranteed borrowings which at the present time amount to $195 million. Any change in the limits of borrowings permitted under this schedule would require the prior consent of the Board. Moreover, under this arrangement, the Board has retained the authority to increase the permitted guaranteed borrowings up to the $250 million limit if necessary to further the intent of the Act.

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

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FOR IMMEDIATE RELEASE May 19, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.8 billion of 13-week Treasury bills and for $2.8 billion of 26-week Treasury bills, both series to be issued on May 22, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing August 21, 1975			26-week bills maturing November 20, 1975		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.728	5.032%	5.18%	97.280	5.380%	5.62%
Low	98.699	5.147%	5.30%	97.251	5.438%	5.68%
Average	98.707	5.115%	5.27%	97.264	5.412%	5.66%

Tenders at the low price for the 13-week bills were allotted 71%.
Tenders at the low price for the 26-week bills were allotted 33%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 39,465,000	$ 27,415,000	$ 28,015,000	$ 6,015,000
New York	3,531,340,000	2,238,065,000	4,520,960,000	2,421,060,000
Philadelphia	60,745,000	60,735,000	32,425,000	17,425,000
Cleveland	127,875,000	112,140,000	126,130,000	75,080,000
Richmond	23,420,000	21,420,000	48,350,000	29,250,000
Atlanta	42,210,000	40,460,000	71,675,000	25,675,000
Chicago	301,395,000	101,075,000	270,920,000	89,160,000
St. Louis	54,315,000	36,305,000	57,025,000	17,010,000
Minneapolis	25,000,000	15,000,000	24,910,000	14,910,000
Kansas City	41,505,000	33,275,000	14,065,000	10,615,000
Dallas	38,725,000	21,725,000	22,760,000	7,760,000
San Francisco	213,845,000	92,455,000	325,165,000	87,345,000
TOTALS	$4,499,840,000	$2,800,070,000 a/	$5,542,400,000	$2,801,305,000 b/

a/ Includes $365,230,000 noncompetitive tenders from the public.
b/ Includes $136,320,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
726 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20506

May 19, 1975

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FOR IMMEDIATE RELEASE
Monday, May 19, 1975

FOR INFORMATION CALL:
(202) 456-6757

COUNCIL ON WAGE AND PRICE STABILITY FILES PETITION TO THE CAB ON PASSENGER RATE INCREASES

In a petition to the CAB filed today, the Council on Wage and Price Stability urged that passenger fare increases filed by American Airlines and Trans World Airlines be suspended and investigated.

American Airlines is filing a 6 percent domestic passenger fare increase while TWA is asking for a 5 percent increase. In addition, both carriers are seeking renewal of the temporary 4 percent fare increase granted last fall for expiration June 30, 1975.

In hearings last fall before the House Commerce Committee the Council stated its belief that the 4 percent increase granted at that time had not been adequately justified. In its current filing, the Council states that, unless adequate justification is forthcoming, this 4 percent increase should be allowed to expire June 30th as originally scheduled.

The Council urged that in reaching its decision on both the continuation of the 4 percent increase and the new 5 and 6 percent increases requested by TWA and American respectively, the CAB satisfy itself that:

1. price elasticity of higher fares will in fact produce higher total revenues,

2. carriers have made every effort to reduce their operating expenses.

Furthermore, the Council stated that under the present circumstances no fare increase should be granted for the purpose of raising the carriers' return on investment to the 12 percent target level of Domestic Passenger Fare Investigation. The airlines have no more reason to expect 1975 to produce "full" profits than have firms in other industries.

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Attachment

CWPS-47

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BEFORE THE
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

In the Matter of AMERICAN AIRLINES, INC. 6% domestic passenger fare increase.	:	Docket _______

In the Matter of TRANS WORLD AIRLINES, INC. 5% domestic passenger fare increase.	:	Docket _______

COMPAINT OF THE
COUNCIL ON WAGE AND PRICE STABILITY
REQUESTING SUSPENSION AND INVESTIGATION

The Council on Wage and Price Stability (the "Council") hereby files with the Civil Aeronautics Board this complaint requesting suspension and investigation of the 6% domestic passenger fare increase filed by American Airlines, Inc. on May 12, 1975 1/ and the 5% domestic passenger fare increase filed by Trans World Airlines, Inc. (TWA) on May 5, 1975. 2/ Both carriers are seeking

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1/ Local Passenger Fares Tariff No. PF-16, C.A.B. No. 249, Airline Tariff Publishing Co., Agent.

2/ Supplements No. 6 and 8, C.A.B. No. 249, Airline Tariff Publishing Co., Agent.

renewal of the temporary 4% fare increase granted last fall for expiration June 30, 1975, plus an additional percentage increase. We seek suspension and investigation of both the renewal and the further increases. This identical pleading is being filed simultaneously in both dockets. 3/

It is the position of the Council that continuation of the 4% fare increase granted last fall is not warranted on the basis of the materials filed by the carriers in their fare justifications. Even less persuasive are the arguments that any additional fare increases should be granted. On the other hand, it is not the position of the Council that fare increases can never be justified. We do not intend to try to second-guess the Board on which fare levels, taking into account carrier costs and the

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3/ The Council does not intend to file separate pleadings involving the tariff submission of each carrier seeking renewal of the 4% increase (as Eastern and United have done) nor to file further petitions for suspension and investigation of any additional fare increase proposals. This pleading, which is being served on all domestic certificated air carriers, is sufficient to place the Board and the carriers on notice as to our views. Any additional filings at this time would simply be duplicative and wasteful of a considerable quantity of time and paper.

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needs of the traveling public, may be justified. Our sole interest is to see that in reaching its decisions, the Board also takes into account the potential inflationary and anti-competitive consequences of its actions, and acts to minimize those consequences. This we do not think was done in the fall of 1974 when the temporary 4% fare increase was approved; it must be done now.

We believe that fares should be rolled back to the level prevailing before the 4% increase -- and perhaps to an even lower level -- unless the Board can satisfy itself that:

> First, the present price elasticity of air passenger traffic is such that higher air fares will in fact produce higher total revenues, net of the revenue lost from discretionary travelers who elect to forego air travel at the higher fares;
>
> Second, that the carriers have made every effort to reduce their operating expenses. Fares should only be increased if required to meet uncontrollable increases in costs. In considering the need for fare relief the Board should, of course, strictly apply the accounting adjustments required by its methodology so as to eliminate costs incurred in connection with excess capacity. (In this connection, we urge the Board to reassess the appropriateness of the 55% load factor standard. In the present economic environment the standard might better be raised to 60%.)

> Finally, and most important, no fare increase should be granted under present circumstances for the purpose of raising the carriers' return on investment to the 12% target level of the Domestic Passenger Fare Investigation. The airlines have no more reason to expect 1975 to produce "full" profits than have firms in other industries.

In our view, the justifications filed by American and TWA fail to establish grounds for fare relief in each of the three categories. Unless the Board can satisfy itself on these points, we urge it to suspend and investigate the renewal of the temporary 4% fare increase and any further increases which may be filed.

I. The Council has a Direct Interest in the Level of Airline Fares

The Council has a direct interest in the price of air transportation. The Council was created by the Council on Wage and Price Stability Act of 1974, on August 24, 1974.[4/] The Council's purposes under the Act are, generally summarized, to monitor the inflationary impact of activities in both the public and private sectors of the economy. Section 3(a)(7) of the Act expressly directs the Council to

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4/ Public Law No. 93-387, 12 U.S.C. 1904 note.

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> 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.

Further, Section 5 of the Act requires the Council to report its findings and recommendations for the containment of inflation to the President and Congress.

The 4% fare increase approved in November 1974 represented the final step in a series of C.A.B. rate actions which had the cumulative effect of increasing the average fare level by about 20% in a period of only 18 months. We believe an increase of this magnitude in so short a period of time was not justified.

Some price increases are unquestionably justified by the necessity of passing through increases in the cost of inputs which cannot be offset by gains in productivity. There is little doubt, for example, that the more than doubling of the unit price in aviation fuel to which the airline industry has been subjected justified some fare relief. On the other hand, it seems to us by no means certain that the full twenty percent increase in fares is justified on that or any other basis. Even less do the additional increases now sought by TWA and American appear to be justified. With current conditions in the industry being what they are, we believe that lower cost air transportation must be made available to bring demand

and supply into better balance. Recent CAB data on traffic and capacity in the domestic system indicates that capacity has continued to grow in the face of an actual decline in demand with the result that load factors have markedly declined.

We are concerned that the sharply declining traffic levels of recent months indicate that the fare increases, together with economic conditions generally, have virtually eliminated the discretionary traveler from the air transportation market. The solution, we believe, lies in a reduction in the cost of air travel so as to generate new business, not in further fare increases in an attempt to recoup from the remaining passengers the revenue lost as a result of traffic declines.

II. The Board Should Suspend and Investigate the Fare Proposals

In our view, the carriers have failed to advance sufficient justification for the maintenance of fares at their present level or for increasing fares. In particular, and as set forth in detail in the sections below, we believe that the carriers have failed to present a convincing case in at least three important areas. Accordingly, we urge the Board to suspend the fare proposals and to set down an investigation into the questions of whether such fares would be unjust, unreasonable, or otherwise unlawful. In the meantime, fares should be maintained at the level prevailing before last fall's 4% increase.

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A. The Board Should Not Increase Fares At This Time In An Effort To Raise The Industry's Rate of Return On Investment.

Upon analysis, the arguments of American and TWA in support of their respective fare increase proposals rest on the contention that, absent the fare increases, the industry will fall far short of achieving the 12% return on investment established by the Board as a rate making standard in the Domestic Passenger Fare Investigation (DPFI). 5/ Thus, American seeks a 6% fare increase in order to raise the industry's 1975 return to 11.5%. 6/ TWA argues that without the 5% fare increase which it proposes, the industry's adjusted rate of return for 1975 will be only 6.96%. 7/

In urging the Board to reject the carriers' conclusions that fares must be increased whenever the industry rate of return is less than 12%, we do not intend to dispute the Board's DPFI determination that 12% is the appropriate target. 8/ Rather, we have two points to make with respect to fare adjustments at this time for the purpose of increasing the industry rate of return.

5/ DPFI, Phase 8, Rate of Return, Order 71-4-58 (April 9, 1971).

6/ American Justification at 5.

7/ TWA Justification at 4, 23.

8/ There is, however, considerable evidence that the 12% standard is too high. For example, the substantial over-investment which characterized the industry throughout the sixties -- a period during which the carriers were profitable but, as a group, earned less than 12% -- casts considerable doubt on the notion that the then-prevailing return was too low.

The first of these is now familiar to every student of our regulated air transportation system, viz., that such a course of conduct is likely to be futile. Fare adjustments alone do not translate directly into adjustments in the return on investment. This is so because when the Board sets fares it simultaneously sets the quality of service that carriers will offer. High fares permit carriers to schedule more flights, and as more flights are scheduled, load factors fall. Lowering fares reduces the number of flights that can profitably be scheduled, causing carriers to cut back on flights, raising load factors. Thus, a wide range of fares is consistent with a normal rate of return and a fare adjustment, except in the very short run, produces a change in service quality rather than in profits. 9/

Second, and of particular significance to the Council because of its statutory duty to monitor the inflationary impact of Federal regulatory decisions, is our belief that price increases are not warranted in the present economic circumstances for the purpose of maintaining profits at an

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9/ As discussed in section C, infra, we believe that the Board should consider raising the DPFI load factor standard, rather than the fare level, in order to increase industry efficiency by lowering unit costs.

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arbitrary target level. It is a fact that these are not normal times and the carriers have no right to expect to earn "normal" rates of return during the current period of high inflation and severe recession.

The carriers are, of course, well aware of current economic conditions and the depressing effect which they have had on traffic. 10/ American cites the Wall Street Journal's report on corporate profits for the first quarter of 1975 as evidence of how bad things really are. "Consumers and their money aren't easily parted these days," reports the Journal in the article cited by American.

> This frugality and other problems associated with the most severe economic slump since the 1930's finally sent corporate profits plunging in the first quarter after a long string of year-to-year gains spurred by the inflationary spiral of recent years.
>
> As expected, the plunge was steep -- 21%. And also as expected, few industries escaped the carnage -- notably steel mills, utilities and farm-equipment companies. Key industries in the plunge were the airlines (with a combined deficit bloodbath of over $150.5 million), chain stores (deeply in the loss column after fat profits a year ago) and oil companies and the auto makers (with sharply lower profits in general). 11/

10/ Indeed, they attempt to blame current traffic softness on general economic conditions alone, a point to which we return in section B, infra.

11/ "U.S. Industry Earnings fell 21% in First Quarter," Wall Street Journal, p. 1, May 1, 1975.

The article includes a chart which tabulates the depressing results by industry grouping. The profits of ten aircraft makers, off 15.6%; 18 automobile and equipment manufacturers, off 97.9%; 25 building materials firms, off 43.8%; eighteen department store chains, off 32.8%; and so on.

Incredibly, American fails to draw from those statistics the obvious conclusion: the airlines have no more reason to expect to earn "full" profits this year than have the auto makers or firms in almost any other business category. Ignoring that fact, American asks the Board to suspend the vicissitudes of the business cycle for it and the other carriers. This the Board should not do.

As the Board itself has recognized, the 12% rate of return is only a goal. "The rates of return specified herein will be used as standards. . . . They are not in any sense to be regarded as guarantees that any individual carrier will earn the standard return in any given year or period of years, or that the industry as a whole will achieve the specified rates in particular periods." 12/ If ever there is to be a year in which the airline industry should not expect to achieve that goal, 1975 is it.

12/ DPFI, Phase 8, Rate of Return, Order 71-4-58, at 3 (April 9, 1971).

G/12

Nor should the industry's failure to achieve a 12% return in 1975 be a cause for alarm. As Judge Seaver recently found, "It is quite evident that the failure of air carriers to earn 12 percent on their investment does not pose a threat to the provision of transportation services or cause any other detriment to the public interest or pose a pressing transportation need." 13/ While the carriers as a group have failed to earn the prescribed return in recent years, the industry earned 10.9% in 1974, adjusted according to the DPFI standards, based on American's own calculations. 14/ Thus, 1975, even if as bad as predicted, follows a relatively good year.

Rather than pursuing improved short term earnings, the industry and the Board ought to have as their goals the retrieval of lost passengers and the improvement of airline efficiency. A fare increase which does not take account of these objectives would be inappropriate and could well be counter-productive.

13/ Capacity Reduction Agreements Case, Docket 22908, Initial Decision at 84 (November 18, 1974).

14/ American's Justification at 2.

B. <u>The Board Should Reexamine The Question Of Price Elasticity Before Ruling On The Various Fare Proposals</u>.

In its decision in the fare level phase of the DPFI the Board undertook for the first time to determine the price elasticity of airline passenger traffic on the basis of a detailed evidentiary record. 15/ The issue of fare elasticity is of crucial significance in any decision to change fares since, as the Board has noted, one must know "the relative change in traffic produced by a change in fare level" in order to determine "the magnitude of the fare increase [or decrease] required." 16/ Thus, the Board cannot determine whether the fare increases proposed by TWA and American will have the beneficial effects on total revenue the carriers predict unless it can determine that the traffic which will be turned away by the higher fares (with consequent loss of revenue) will be more than offset by the increased revenue extracted from the reduced number of passengers who continue to fly.

We urge the Board to carefully reexamine the elasticity conclusions which it reached in the DPFI before passing on the fare increases now under consideration. If one assumes that in the DPFI the Board correctly

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15/ DPFI, Phase 7, Fare Level, Order 71-4-59 (April 9, 1971).

16/ *Id.* at 54.

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determined the elasticity to be -.7, it is almost certain that some different rate of elasticity is appropriate today. Since the Board's DPFI decision the general fare level has increased by about 20% while, at the same time, the national economy has experienced unprecedented peace-time inflation, a severe recession, and a major decline in consumer confidence. These factors in the general economy undoubtedly account, in part, for the disappointing traffic results so far this year. The effects of economic conditions generally, moreover, have been exacerbated by the 20% increase in airline fares already noted. 17/ Under the very DPFI standards which the carriers urge the Board to apply (-.7 elasticity) a fare-induced traffic decline of major proportions must have occurred over the last 20 months. Thus, the fare elasticity which was appropriate in the past is quite likely inappropriate today.

17/ The carriers take the position that the recession alone is responsible for current traffic softness. TWA barely addresses the question of elasticity beyond its assertion that "the recognized softness in traffic growth . . . is, of course, tied to the current recession." (TWA Justification at 12). American goes further. It argues, contrary to the DPFI finding and without any factual support, that "traffic response to most of the recent fare increases has been inelastic." Amazingly -- and again without a shred of evidence -- it adds that "While traffic declined subsequent to last November's fare increase, this was clearly due to the effect of the recession." Finally, and in spite of the foregoing remarks, American argues that "Nothing has happened since [the Board's decision in the DPFI] . . . that casts doubt on the [-.7] factor." American Justification at 10.)

We submit that the carriers are wrong. The price-elasticity of airline traffic must be reexamined in light of current economic conditions, including the present fare level

We urge the Board to approach its consideration of the appropriate fare level for the period after June 30 with a reassessment of the -.7 fare elasticity. Such a reevaluation might reveal that the true solution to the airline industry's financial woes lies not in further fare increases -- nor even in a rollback of last fall's temporary 4% increase -- but in a substantial system-wide reduction in the price of air travel. The stimulative effects of such a step might well reverse the current traffic downturn, setting the stage for a new period of growth and improved carrier health.

We are not, however, presuming to prescribe the price elasticity of domestic passenger transportation. That task is for the Board. We simply urge the Board to carefully consider this question before deciding on the pending fare proposals.[18/] Of course, the Board can do no less consistent with its mandate to consider, *inter alia*, the effect of fares on the movement of traffic.[19/] Moreover, should the Board fail to reexamine the elasticity question it might reach a decision which harms both consumers and the carriers.

18/ In our view, if a decision on this point cannot be reached before June 30, the 4% temporary increase should not be renewed. The available evidence -- the sharp traffic declines experienced in the first quarter of 1975 -- suggest that fares are already too high.

19/ 49 U.S.C. 1482(e).

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C. <u>Before Approving Any Fare Increases The Board Should Require The Carriers To Demonstrate That They Have Made Every Possible Economy. The Board Should Rigorously Apply The Load Factor Standard Of The DPFI And Should Consider Raising It.</u>

In view of the drastic impact which a further fare increase is likely to have on the development of traffic, we urge the Board to require the carriers, as a prerequisite to any fare relief, to demonstrate that they are operating as efficiently as possible in today's economic environment. To date the carriers seeking higher fares have failed to make such a demonstration.

American does not address the issue at all while TWA informs the Board that it is "sparing no effort to reduce its costs and increase its productivity and efficiency." It lists in an appendix to its justification the actions which it has taken to effect cost reductions. Significantly missing from the appendix however, is any indication as to the magnitude (for example, the number of employees furloughed or dollars saved) of these economies. This is particularly noteable since TWA can tell the Board to the nearest one thousandth of a cent what its fuel costs per revenue passenger mile. On the other hand, there is substantial external evidence that the carriers have a long way to go before achieving truly efficient operations. For example, the continued emphasis of some carriers on selling frills and luxury service suggests that carrier managements have not fully adjusted to present economic conditions.

The most fruitful area for cost savings, of course, lies in a reduction of the number of aircraft miles flown. For example, when faced with similar problems, the automobile industry reduced product output in an attempt to reduce costs while bringing supply in line with demand. Thus, although scheduling restraint is the key to bringing the carriers' costs in line with available revenues, the existing evidence -- plummeting system load factors -- indicates carrier management is doing a poor job in this area.

Instead of attempting scheduling restraint both carriers resurrect the now discredited argument advanced in the *Capacity Reduction Agreements Case* by the agreement carriers (including American and TWA) to the effect that the carriers are helpless victims of external forces, unable to control the level of capacity which they offer. As Judge Seaver found, the evidence of record in that proceeding demonstrates the contrary, *viz.*, that each

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carrier has substantial freedom to control the levels of its output. On the other hand, it also demonstrates that as long as the Board's fare policy permits the operation of excess capacity, the carriers will operate it. Thus, Judge Seaver concluded:

> "The major premise advanced by the agreement carriers is that they cannot limit capacity to reasonable levels through the exercise of unilateral restraints because of peculiar competitive circumstances surrounding the scheduling of air carrier capacity. The minor premise is, first, the S-curve theory which holds that an increase in capacity results in an even greater increase in market share, and, second, the alleged dilemma similar to the two-prisoner game described above, which they say inevitably causes the scheduler to plan a greater-than-optimum number of flights.
>
> "Both premises have been shown in this proceeding to be without foundation in fact. It may be true that the scheduling personnel of the agreement carriers have thought their premises were valid and, acting accordingly, continued to add excessive capacity. There is no reason for them to continue to do so, of course, and the decision herein cannot be based upon these false premises. " 20/

Accordingly, in deciding the fare level questions now before it the Board should strictly adhere to the DPFI load factor standards. Indeed, we urge the Board to give serious consideration to raising that standard. 21/

20/ Capacity Reduction Agreements Case, Docket 22908, Initial Decision at 53-54 (November 18, 1974).

21/ Such a proposal has been formally presented to the Board by the Department of Transportation in a petition for rule making filed on January 17, 1975 in Docket 27417.

The very principles which led the Board to adopt the 55% standard in the first place -- the tradeoff between passenger convenience and cost of operation -- now dictate that the Board should consider raising the load factor standard, perhaps to 60%. Such a change would also be consistent with the Nation's heightened concern over inflation. Continued application of the 55% load factor standard during a period of sharply rising costs effectively binds the Board to approve future fare increases regardless of their effect upon the traveling public and upon the long-term health of the airline industry.

Conclusion

In light of the foregoing comments, we urge the Board to suspend and investigate the several fare proposals and pending that investigation to permit fares to return to the level prevailing before last fall's approval of the temporary 4% increase.

Respectfully submitted,

George C. Eads, Assistant Director
Government Operations & Research

Vaughn C. Williams, General Counsel

BY:

J. Michael Roach

J. Michael Roach
Assistant General Counsel

May 19, 1975

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served copies of the foregoing complaint upon representatives of American Airlines, Trans World Airlines, and every other certificated air carrier holding authority to engage in scheduled air transportation in the forty-eight contiguous states.

J. Michael Roach

J. Michael Roach
Assistant General Counsel

May 19, 1975

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON WAGE AND PRICE STABILITY
726 JACKSON PLACE, N.W.
WASHINGTON, D.C. 20506

May 19, 1975

FOR INFORMATION CALL:
(202) 456-6757

MEMORANDUM TO CORRESPONDENTS:

The Council on Wage and Price Stability today filed the attached comments on the Food and Drug Administration's (FDA) proposal to exempt individually wrapped pieces of candy of not more than two ounces net weight from the FDA's weight labeling requirements.

o O o

Attachment

CWPS-46

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BEFORE THE
FOOD AND DRUG ADMINISTRATION
WASHINGTON, D.C.

PROPOSED EXEMPTION OF
INDIVIDUALLY WRAPPED PIECES OF CONFECTIONERY
FROM REQUIRED NET WEIGHT STATEMENTS

40 FEDERAL REGISTER 11731

COMMENTS OF THE
COUNCIL ON WAGE AND PRICE STABILITY

The following comments are submitted by the Council on Wage and Price Stability (Council) in response to the Food and Drug Administration's ("FDA's") Notice of Proposed Rulemaking to exempt certain categories of individually wrapped pieces of confectionery from the existing net quantity of contents labeling requirements in Part 1 of Title 21 of the Code of Federal Regulations. That Notice was published on March 13, 1975 at 40 Federal Register 11731. The staff of the Council requests that the FDA waive its May 12, 1975 filing date with respect to these comments.

Part 1 of Title 21 currently requires that the net quantity of contents be disclosed on the wrapper of each piece of confection over one-half ounce net weight. See 21 CFR Section 1.8b. FDA's current proposal, briefly described, is to exempt from this requirement individual confectionery of two ounces or less net weight so long as the net quantity of contents is disclosed (i) on containers in which the confectionery is shipped and (ii) on the bag, containers or other point of sale display where the confectionery is sold. This exemption would be accomplished by the amendment of Section 1.1c of Title 21.

The proposed amendment would reduce production costs by eliminating the waste of existing printed packaging material when raw material prices dictate a change in product size. Furthermore, the flexibility granted to the manufacturer would allow product sizes to more closely approximate current costs.

We have examined the petition and the estimates of savings that the National Confectioners Association (NCA) has supplied in support of the petition. While we generally agree with NCA that the proposed amendment would result in savings to consumers, we believe that the potential savings are not as large as NCA claims. In particular, we believe that NCA has erred in including as "savings" the retail markup on the actual cost reduction that the amendment would yield. Second, by its use of data from a period of unprecedented

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swings in commodity prices NCA conveys a misleading impression of the likely savings during more normal periods.

Our own analysis of the potential savings is contained in the Attachment. Briefly, we conclude that the potential savings may be a maximum of $59 million, not the $106 million claimed by NCA. This change results largely from our correction for the first of the two items mentioned above. However, we have been unable to correct for the atypical nature of the period analyzed, so we believe that even our estimate of potential savings may consequently be somewhat overstated.

We are aware that the removal of the net weight statement from each individual count good could result in some loss of consumer information and open up the possibility of deception. We have no basis upon which to determine the value that consumers might choose to put upon this information loss. However, the mere fact that some consumers might place some value upon this information should not, we believe, be grounds for denying the proposed amendment.

A precedent does exist. Confectionery of less than one-half ounce in net weight per individual piece is already exempt from all labelling requirements <u>including</u> net weight if the container in which it is shipped is in conformance with labelling requirements. See 21 CFR Section 1.1c(a)(4)(i).

We do not believe that we can recommend a course of action for the FDA. What the FDA must decide is whether, in its judgment, the benefit to consumers of having the net weight statement on each piece of candy of two ounces or less is worth perhaps as much as $59 million.

Respectfully submitted,

Vaughn C. Williams

Vaughn C. Williams
General Counsel

George C. Eads
Assistant Director for
Government Operations
and Research

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ATTACHMENT

AN ESTIMATION OF BENEFITS AND COSTS OF THE PROPOSED EXEMPTION FROM REQUIRED LABEL STATEMENTS OF INDIVIDUALLY WRAPPED PIECES OF CONFECTIONERY

Prepared by

Dennis Chin
Analyst

for

COUNCIL ON WAGE AND PRICE STABILITY

MAY 1975

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The National Confectioners Association (NCA) has petitioned the Commissioner of Food and Drugs for an exemption from the required net quantity of contents declaration for individually wrapped pieces of confectionery more than one-half ounce but less than two ounces net weight. In other words, NCA does not want to label candy bars with their net weight.

The reason for the petition is the need for new packaging materials whenever the product weight is changed. The confectionery industry has found it necessary to sell their products at prices that are multiples of five cents. When production costs change, the usual method of reflecting such changes is a decrease in contents rather than an increase in price.

Thus, when raw material prices fluctuate, extra costs must be incurred in equipment changes and in the scrapping of packaging materials. In some cases, the lead time of a few months for packaging materials plus the rapid changes in prices have rendered the new package obsolete by the time it is delivered.

Social costs may not be as obvious but nevertheless are quite real. In this case they are derived from the manufacturer's uncertainty of future raw material prices. Good business practice would dictate a conservative approach, decreasing package size sooner and increasing package size slower than current costs might permit, because of the long lead time for packaging materials. As a result the consumer receives less product than if the manufacturer had the flexibility to adjust package sizes to market conditions. The reduced amount of product, then, may be considered the social cost of the regulation requiring individual net weight labeling on candy bars.

In support of their petition, NCA has provided detailed cost estimates based upon recent surveys of various manufacturers. They claim a potential savings to the consumer of $30 million in manufacturing costs and another $76.6 million in social costs if the exemption is granted.

NCA is quite aware that deception may be possible, and does not want to deprive the consumer of net weight information. They propose that the display container or counter cards be utilized to provide that information. All other required labeling would still be printed on each item.

The Commissioner has considered the petition to be reasonable and has published it in the Federal Register of March 13, 1975, for comments from consumers and industry.

ANALYSIS: */

Scrutiny of the detailed cost estimates reveals that some adjustments must be made both in the estimates and in the way they should be used in drawing conclusions for future actions. As the estimates stand, wasted packaging material and its associated costs total 2.175% of sales, and account for a full 29% of the 7.5% of sales budgeted for packaging costs. Such tremendous waste may have been the case in 1974, but it is very doubtful that such losses will occur in the future, especially after this experience.

*/ All figures used in this analysis are based upon the detailed cost estimates supplied by NCA in the addendum to the original Petition, dated January 17, 1975.

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In addition, the estimates do not appear correct. If approved, the exemption would not eliminate the cost of equipment changes for a new product size; if anything, by encouraging more frequent changes in product size, the cost should be even higher.

As prices come down from their peak, there is a good chance that much of the scrapped packaging material can be used, since it is on hand, cutting that loss in half from $7.2 million to $3.6 million.

Making these changes brings the manufacturer's cost to $12.4 million. Next is the question of markup in calculating the cost to the consumer.

The addition of markup costs into total cost is valid only insofar as costs are passed on as packages with higher prices. If higher costs result in smaller packages with no increase in price, markup costs are not increased. Thus only the proportion of products with higher prices to total products would determine the amount of retail markup that should be included in costs.

Noting, however, that the increased costs of $12.4 million is only some 1.4% of total sales and probably only a small fraction of increased raw material costs, the decision to raise prices would not be greatly affected by the extra packaging costs. As a result, the retail markup should not be included as a cost to the consumer, and the total cost should remain at $12.4 million.

I cannot dispute the claim of 5.5% more product provided if there existed the flexibility granted by the exemption. In fact, support for this contention has appeared in the form of a recent announcement by a major candy manufacturer. It has declared a 10% increase in product size with no change in price, but will not implement the increase until they make "the necessary changes in equipment and wrapping materials." (Wall Street Journal, April 28, 1975.)

If the exemption had been in effect, the change could have been made almost immediately, with no delays because the old labels were not used up or because the new ones hadn't arrived.

I do not believe the retail markup should be included in the social costs either, since we are dealing only with product size and not changes in prices. The social costs then are:

$905 million X 5.5% = $49.8 million

Not all of this will be saved, because there the assumption of more frequent size changes implies an extra cost of equipment changes. Assuming the extra adjustments will cost $3.6 million, the figure NCA gives as an average industry cost for the previous year, the social costs will be $46.2 million, for a total potential savings of $58.6 million if an exemption is granted.

The petition appears to make good sense. The question, though, is whether the conditions that produced such rapid changes in product sizes and prices, and served as the basis for the above savings figure, are likely to occur again. Is the present raw material instability just a passing phenomenon?

We must also weigh the possibility of consumer deception. One must consider, though, that the decision to purchase a candy bar is often unaffected by the net weight statement. In addition, confectionery of

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less than 1/2 ounce in net weight per individual piece is already exempt from all labeling requirements including net weight if the container in which it is shipped is in conformance with labeling requirements.

After consideration of all the evidence, I feel the exemption from individual net weight labeling should be granted. Though the savings will not be as great as the petition projects, the high probability of continued instability in the prices of raw materials for candy, especially sugar, will enable some benefit to be realized from the exemption. The costs, in the form of reduced consumer information, are minimized by the use of display cards containing the net weight statement and by the nature of the purchase decision for candy bars.

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

Contact: L.F. Potts
x-2951

FOR IMMEDIATE RELEASE May 20, 1975

ANTIDUMPING INVESTIGATION INITIATED
ON WATER CIRCULATING PUMPS, WET MOTOR TYPE,
SUITABLE FOR USE IN RESIDENTIAL AND COMMERCIAL
HYDRONIC HEATING SYSTEMS, FROM THE UNITED KINGDOM

Assistant Secretary of the Treasury David R. Macdonald announced today the initiation of an antidumping investigation on imports of water circulating pumps, wet motor type, suitable for use in residential and commercial hydronic heating systems from the United Kingdom.

Notice of this action will be published in the Federal Register of May 21, 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 1, 1975, through May 15, 1975, imports of the subject merchandise from the United Kingdom were valued at approximately $81,000.

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

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FOR P.M. RELEASE
TUESDAY, MAY 20, 1975

STATEMENT BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE ANNUAL MEETING OF THE
INTER-AMERICAN DEVELOPMENT BANK BOARD OF GOVERNORS
SANTO DOMINGO, DOMINICAN REPUBLIC
MAY 20, 1975

Mr. Chairman, Fellow Delegates, and Distinguished Guests:

On behalf of the American Delegation, I want to thank the Government of the Dominican Republic for serving as such a gracious host for this sixteenth annual meeting of the Inter-American Development Bank. It is indeed fitting that the representatives of the Inter-American family gather in the place where Christopher Columbus first arrived in the Western Hemisphere.

Economic development in Latin America continues to have high priority for the United States. We recognize that many of our southern neighbors measure, in part, the degree of our interests and commitments to Latin America in terms of our support for their economy and social development. This is an important meeting because the IDB's resources require early replenishment. We are prepared to discuss a major replenishment which would include $1.8 billion from the U.S. over a 3-year period. This surely would represent a substantial increase in the resources provided the Bank annually by my country.

Joining us here today are several distinguished representatives from the United States Congress. As members of key committees responsible for legislation affecting international financial institutions, they have a special interest in the affairs of the Bank.

I am particularly pleased that when our meetings are adjourned, these Congressmen will have the opportunity to visit several projects financed by the IDB and thus to see firsthand the results of the Bank's efforts. Their participation here and in visiting IDB projects expresses in a very practical way the continued support for the economic developments of Latin America by all parts of the U.S. Government and our people.

WS-314

We share your pride today in the notable economic progress that has taken place in Latin America in recent years. The development process in most countries of the region has reached a point where high and steady growth rates have become a normal phenomenon. According to the latest figures compiled by the Bank, Latin American countries as a group have sustained a very impressive 7 percent rate of growth a year over the past several years. By comparison, the rate of economic growth in the United States has averaged less than half of that amount during the same period. While our economy remains large and dynamic, we rank near the bottom of the hemisphere in terms of growth rates.

In recent months, the United States has experienced a negative rate of growth. There is growing evidence, however, that the economic recession in my country is nearing its end, and we expect to be on the road to recovery before the end of the year -- a process that will, of course, be helpful to all of us since the United States remains the major market for Latin American exports.

Because of the strong growth rate in Latin America in recent years several nations in the region, when measured in terms of sustained growth and diversification, competitiveness in international markets, and -- most importantly -- in terms of their ability to attract, use, and service large amounts of private foreign capital on commercial terms, are now approaching the status of developed countries. The substantial private flows of loan capital to Latin America over the past several years attest to the confidence of private investors in the future of Latin America. This remarkable progress achieved by your countries is a tribute to the talent, the hard work, and the perseverance of people throughout the Hemisphere.

Our Continuing Commitment

Plainly, however, the economic growth of recent years has not been equally shared among Latin countries. There are still very real needs in many of the poorer countries of the hemisphere for continued and increased concessional assistance. Moreover, even those countries with strong and rapidly expanding economies which can afford to service ordinary capital loans continue to need long-term capital from the Inter-American Development Bank.

As a nation blessed with relative abundance, we in the United States will not shirk our responsibilities in this hemisphere. The economic development of Latin America continues to be a high priority of the United States Government, and we look upon the Bank as a major vehicle by which that objective can be realized. Two months ago, the Congress indicated our continuous support for the Bank by appropriating $225 million for the Fund for Special Operations.

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My fellow finance ministers will appreciate the fact that, like many Latin American countries, the United States now finds itself short of the capital required to meet our own internal investment needs. Those needs are impressively large, and they will demand a full-scale effort, especially since the United States has not been keeping pace in its capital investments. We must devote many of our resources to this purpose if we are to remain internationally competitive and to meet our needs for urban renewal, revitalize our transportation, expand energy research and development, and modernize our industrial plants.

Moreover, in 1974, many of the developed countries, which have traditionally transferred resources to the developing world, were themselves unable to cover their imports of goods and services with export earnings and thus had to borrow on an unprecedented scale. For most donor countries this was a new situation where they themselves were forced, in effect, to borrow in order to provide assistance. In most cases, the interest and terms of such borrowing were much harder than the terms of the aid they were giving.

Despite these difficulties, the donor countries, including my own, held steady in continuing their aid for developing countries. Maintenance of these aid levels in the current economic environment is clear and convincing testimony to our continuing commitment to the process of economic development.

Yet it is only fair to add that under these conditions, sustained support for the programs of the international development banks will heavily depend on their performance. The fine performance over the past decade and a half of the Inter-American Development Bank gives us confidence that it will continue to be a critical and effective multilateral institution for furthering economic development in most Latin American countries.

Evaluating the Bank's Performance

Let us turn, then, to an evaluation of the Bank's record and its policies for the future.

Looking over the past few years, especially 1974, the Bank has registered several outstanding achievements under the impressive leadership of its President, Mr. Antonio Ortiz Mena:

-- At the end of 1974, the Bank reached agreement with ten European countries as well as Japan and Israel for their entry into the IDB as member countries.

-- Negotiations on the $500 million Venezuelan Trust Fund were completed and the agreement was signed earlier this year.

-- The IDB, through the work of its Group of Controllers, has been in the vanguard of the international development banks in the field of independent evaluation of programs, activities, and operations. We look forward to progress on the Group's recommendations to the Board.

-- The Bank has also continued to hold the line on staff expansion, thus emphasizing efficiency and avoiding the waste of a growing bureaucracy.

In considering the progress made by the Bank, it is wise to remember that the annual amount of new loans is not itself the proper measure of the Bank's effectiveness. As I told a recent meeting of the Asian Development Bank, the key measure of a development bank's success is how much development actually takes place through the quality of Bank-supported projects and the Bank's contribution to institution building, training and priority setting in its member countries.

In order to achieve the best results, we strongly believe that the limited resources of the Fund for Special Operations should be reserved for the countries that have a genuine, pressing need for concessional assistance and have demonstrated by their own self-help efforts that such assistance is justified. We recognize, also, that in several of these countries medium-term prospects do not permit servicing of more expensive capital. However, some of the countries in the so-called "limited market" and "intermediate" categories ought to begin the process of graduating from the FSO.

For those member countries that are most developed, I would urge, in the context of the next replenishment of the Bank, that they make a part of their own contribution to the FSO in the form of convertible currencies. Such a demonstration of support for the Bank will immeasurably strengthen the ability of the Executive Branch of my government to assure that the United States makes a substantial input to the next replenishment.

I know that even the economically most advanced member nations have pockets of poverty or sectors of the population which are extremely poor. In our judgment, however, eligibility for concessional lending should depend on the country's inability to attract and service loans on ordinary terms; and that depends on the country's overall economic strength and balance of payments The internal distribution of income within a country is determined by the projects financed and by the country's general economic policies.

With the very rapid growth of IDB lending over the last several years, it would be prudent in the period immediately ahead to concentrate on improving the quality of new loans, improving the estimation and control of project costs and achieving more efficient implementation of loans underway. The Bank is well-managed and ably staffed. Nonetheless, I am sure my fellow Governors will agree that we must continue to strive for higher standards of excellence in all aspects of the IDB's operations.

There are a number of operational and policy measures that should be considered in this regard. For example, increased emphasis should be given to establishing realistic conditions and then adhering to those conditions which are, after all, designed to help the borrowers. The Bank should also seek ways to reduce the accumulation of undisbursed funds, particularly on old loans. The fact that there are still large amounts of undisbursed funds from loans made before the end of 1970, many of which are less than 50 percent disbursed, underscores this point. These amounts are larger than need be for a well-run bank like the IDB. Another area in need of attention is cost overruns, which have become a major problem for the IDB. Not only do cost overrun loans pre-empt Bank funds which are scarce and are needed for new projects, but they also divert a great deal of valuable staff time from other new projects that should be claiming more attention on the part of the Bank. Assuming the projects financed by the Bank are among the highest priority undertakings for the recipient countries, we believe that alternative means of financing should be found for these cost overruns.

I believe an important step that can be taken to ensure progress on these operational matters which I have discussed would be for the Board of Directors to insist that before approving new projects they be brought to a sufficiently advanced stage of preparation to ensure efficient implementation. This requirement will no doubt be easier to express than to accomplish, but the Bank now has an established reputation for prudent, able management and such an approach is certainly within its capabilities.

As for the Bank's lending policy, we believe the Bank should become even more active than in the past in the sectors where innovative lending is needed, such as rural development and other types of projects which reach lower income groups. While increased production and productivity should remain the chief objective in agricultural loans, we believe the Bank should place special emphasis on projects which ensure that benefits will be widely shared among the rural populations of its member countries.

In view of the rich potential of the Latin American countries for helping the world surmount the growing food crisis, we strongly support the Bank's efforts in the field of agriculture and endorse its initiative in seeking to establish a Hemisphere Agricultural funding of international agricultural research institutions in Latin America. It is through agriculture that the IDB member countries can make a great contribution to solving one of the world's greatest resources problems, for Latin America has great potential not only for feeding its own people better but also for increasing exportable surpluses of agricultural food products. For this reason, the IDB should make a concentrated effort to reverse its recent tendency to lend increasingly for infrastructure projects at the expense of lending for the agricultural sector.

We would also regard any move to reconsider nonproject lending at the IDB as unfortunate. Loans for sectors or general programs are superficially attractive since they usually can be quickly disbursed and provide balance of payments support. The regional development banks, however, should not be diverted from their fundamental purpose of financing projects which promote long-term economic growth. They should not try to solve short-term balance-of-payments problems for which other institutions exist and for which other vehicles are being developed.

Although we are focusing in this meeting on inter-governmenta relationships and the affairs of an official lending institution, we should also not lose sight of the overwhelming importance of the private sector as a supplier of external capital to Latin America. Approximately three-fourths of net financial flows to Latin America comes from private sources. Despite our balance of payments problems and our domestic investment needs, the United States has maintained, and will continue to maintain, a free and open capital market. Latin American countries, along with other nations of the world, will continue to have access to this valuable source of funding. At the same time, let me stress that it is up to each developing country to establish a suitable investment climate and record of creditworthiness.

Given the Bank's tight resource position, we would encourage the Bank to step up its efforts to fund new projects in cooperatio with private investors and banks. It would appear that a large volume of resources could be available to the Bank in the form of parallel, joint, and other types of co-financing in collaboration with the private sector. I urge the Bank to pursue more actively co-financing techniques that would pioneer a new cooperative arrangement with the private sector in providing development finance. This could help the Bank, with a given amount of its resources, to contribute more widely to the development of member countries. It would also be a significant initial step in assisting member countries to establish substantive financial relations for further access to international capital markets. The private sector is important to the Bank not only as a source of financing but also as a recipient of bank loans largely througl development finance companies. Most Latin American countries have a dynamic private sector. Since a private sector free from government controls is the most certain underpinning for economic development, the Bank should seek to increase the share of its

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lending to productive enterprises outside the public sphere.

In our view, the job of the international development lending institutions is to supplement private investment, not to substitute for it. The IDB and its institutional colleagues were established to be innovative and to pioneer in those areas which are not, at least in the early stages of development, attractive to private enterprise. Countries should not look to these public institutions to fill resource gaps created by a poor investment climate or by the failure to mobilize and efficiently utilize domestic resources. The United States Government is eager to work with the nations of this hemisphere to help you find ways to draw more effectively upon the private capital available in our country.

State of the World Economy

Let me direct your attention now to broader economic issues facing the member countries of the Bank, for it is clear that our hopes for economic development hinge to a large degree upon the general health of the international economy.

At the time of last year's meeting of the Bank Governors, inflation was plaguing much of the world. That inflation grew partly out of the simultaneous boom conditions of 1972 and 1973 in the major countries and partly out of long-standing government policies in many countries, including my own, that served to fuel inflationary pressures. The steep increase in international food and oil prices, of course, severely aggravated that inflationary trend.

Since last year's meeting, some of our countries have moved temporarily into a generalized condition of minimum or negative growth and substantial unemployment. Inflation has diminished, but it continues to be the most fundamental long-term economic problem facing many nations.

With the acute strains of current economic conditions, there is a natural tendency for nations to turn inward and to seek economic solutions at the expense of their trading partners. Although solutions must indeed begin at home, joint efforts at international cooperation will permit all of us to do a better job at solving our problems. In today's interdependent world, mutual prosperity depends on mutual cooperation more heavily than ever before.

Cooperation among nations has already helped us to make a good beginning in coping with the many new challenges facing the developing countries. We have begun a constructive dialogue to respond to the problems of the developing countries in the context of the New Development Committee, which is associated with the International Monetary Fund and the World Bank. The committee began by focusing attention on the emergency financing problems of the poorest developing countries. We are hopeful that the international community will resolve to establish a Trust Fund for such emergency financial assistance in 1976, after the IMF oil facility with its subsidy account terminates lending.

While searching for answers to the problems of the poorest developing countries, we remain mindful of the severe short-term dislocations being suffered by middle-income countries. The Development Committee will meet in June and I can assure you that the United States will be energetic in seeking cooperative solution to these pressing problems.

Already a substantial volume of funds has been made available from the International Monetary Fund's regular resources to many countries with balance of payments difficulties -- developed and developing countries alike. Moreover, about 2.5 billion SDRs have been lent from the IMF special oil facility established last year.

Looking beyond 1975, IMF members have agreed in principle to seek an increase in IMF quotas which will place the fund in a position to make substantial resources available to countries in need. The United States has agreed to such an increase, provided that accord can be reached on a series of important amendments to the IMF articles of agreement.

A major step has also just been taken to provide the international payments system with an additional measure of insurance. Together with the finance ministers of the other OECD countries, I was pleased last month to sign an agreement on a new facility to be called the Support Fund. This agreement establishes a $25 billion safety net to be available to participating countries as a supplement to, but not a substitute for, established international institutions such as the International Monetary Fund. The U.S. continues to view the IMF as the principal source of multilateral assistance for those members facing temporary balance of payments difficulties. It is our hope that this safety net will never be used, but the confidence it gives should make major contributions to the effective functioning of the international financial system. By so doing, it will help to avoid a situation in which individual countries, eager to gain greater protection, would be tempted to take restrictive measures which would in the end be detrimental to both developed and developing countries.

Turning to trade matters, let me reiterate that in adapting international trade policies to the new economic environment, our goal must be to avoid the temptation for each country to seek unilateral solutions to its problems. Toward that end, the United States has recently enacted legislation, the Trade Act of 1974, which will help us to work constructively and positively toward an increasingly open world trading system.

The United States and Latin America share a number of mutual concerns in the field of trade. For example, several Latin American countries and the United States are major exporters of some temperate-zone agricultural products for which we have a common interest in persuading other countries to lower their barriers. On tropical products too the U.S. supports Latin American interests, and cooperative action on the part of Latin America and the United States in the multilateral trade negotiations helped initiate negotiations on tropical products this past March.

Let me also reassure you that we are firm in our resolve to implement the Tokyo Declaration with its special consideration for the needs of the developing countries. I should also point out that a specific mandate in our Trade Act gives special consideration to developing country interests.

The United States also fully recognizes the concerns of Latin American exporters over the wide fluctuations that have occurred in recent years in commodity export prices. Commodity prices have fallen sharply during the past year after rising to record levels in early 1974. Although most commodity prices are still well above the pre-1972 levels, the declining prices of many primary products have not been matched by price decreases for imports such as oil and manufactured products. Thus, there is a genuine basis for concern over the effects of falling commodity prices on the balance of payments and the serious threat such prices pose to long-term development plans.

The U.S. and other industrialized nations are sensitive to these concerns and are currently studying methods that could address them properly. We continue to believe market forces of supply and demand are generally the best allocator of resources. Within the United States, the Treasury Department is chairing an inter-agency task force to study the problem and to formulate recommendations for U.S. commodity policy. Our general policy approach is that we are willing to continue discussing individual commodities on a case-by-case basis. While we emphatically disapprove of unilateral producer actions that artifically raise prices by restricting supplies to consumers, we are eager to work with you in a spirit of mutual cooperation.

Conclusion

In closing, let me re-emphasize our fundamental commitment to the "new dialogue" between Latin America and the United States. The nations of our hemisphere share a history of mutual support in good times and in times of crisis. We also share the hope of a better life for all of our people. The United States recognizes the importance of its long-standing economic inter-relationship with the countries of Latin America, and we recognize a continuing obligation to assist in the economic development of this region. Let us remember that the oldest U.S. aid program is not the

Marshall Plan but the Institute of Inter-American Affairs, which was established in 1942 under the inspired leadership of the man who is now the Vice President of the United States, the Honorable Nelson Rockefeller.

Since 1960, the United States has provided over $8.5 billion in various forms of assistance to the member countries of the Inter-American Development Bank. We have also made major contributions through the World Bank and IDA. We are particularly pleased that some of these funds have helped to provide the seed money for the remarkable economic progress that several Latin American countries have achieved.

Let us, then, take heart from the progress of the past as we look forward to a new era for the Inter-American Development Bank -- an era which will bring a sizable increase in its capital resources, greater concentration of the Bank's concessional resources on the poorest member countries, innovative co-financing techniques for private sector collaboration, and hopefully, a stronger momentum toward economic development throughout the hemisphere. We in the United States look forward to working with the other members of the Bank in this vital endeavor.

Thank you.

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Hello, I'm delighted to be here today. I always enjoy meeting with bankers because I have enormous regard and respect for your role in our society.

Bankers have been part of America's life since there was an America. Two hundred years ago merchant bankers financed the War of Independence. Rhode Island had one of the first ten banks established in the new nation. Later, bankers moved West right along with other Americans. In my homestate of New Mexico, the cast of characters who "won the West" always included the cowboy, the shopkeeper, the dance hall girl, and the town banker -- not necessarily in that order. These were the men who staked the miners, farmers and ranchers -- maybe the dance hall girls too -- to new businesses. Today, bankers remain basic to our society and our free enterprise system.

Talking of the free enterprise system -- let's do just that. Let's look briefly at some trends in our economy, our government and our society -- the spenders, lenders and defenders of that dollar bill you and I both work with.

Remarks by the Honorable Francine I. Neff before the Rhode Island State Bankers Annual Convention in Newport, Rhode Island on May 20, 1975.

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Any discussion of our economy must focus rather quickly on inflation. I think we all know why we have it.

-- We fought a war in Asia -- and charged it.

-- We suffered an oil embargo and oil prices quadrupled; crop failures around the world raised the price of food; dollar devaluations increased foreign demand for our goods and so on.

But -- most important -- for years our nation has followed some unsound monetary and fiscal policies. Our government has spent beyond its resources for at least a decade and now the bill is coming due.

We can point the finger of blame in many directions. But basically, that spending government was you and me, through our Congressmen and other officials. We loved what our expensive programs bought us, and now we hate the morning-after bills that stare us in the face.

There are, of course, a number of heartening signs that inflation is slowing down. And there are indications that the current recession will bottom out in the next few months, with record slide-offs in inventory holdings. The tax rebate program should also give considerable stimulus to the economy as it puts more dollars into the economic bloodstream.

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Nevertheless, the twin spectres of inflation and recession remain as monsters in our national midst. The real problem today is how to balance the need to combat recession against the need to keep inflation under control. This is hardly a science, and the trade-off point is, of course, subject to debate.

I have mentioned that big government and big spending programs over a period of time are a prime reason for inflation. As Secretary of the Treasury William Simon has said many times, we have more government than we want, more government than we need, and more government than we are willing to pay for. Someone else once said that dealing with the government bureaucracy is like trying to put sox on an octupus.

Your state, Rhode Island, is noted for its traditional independence. Exactly 199 years ago this month, your area became the first American colony to declare its independence from the King of England. But a few years later, Rhode Island was the last of the original colonies to join the union, because your early leaders feared the new government would have too many regulations.

Those early leaders might say to us -- "I told you so." Today we have regulations coming out of our ears. It's been estimated that individuals and corporations now spend 130 million manhours a year filling out government forms, excluding tax forms. I respectfully suggest that the Republic would still stand if we took a fresh look at our whole regulatory system

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Big government also means a big labor force. And today, about one out of every 5 Americans works for their government at the local, state or federal level. State and local government alone has more than tripled since 1950 -- so anyone who wants to tangle with red tape is now saved the trouble of coming all the way to Washington. They can practice in their own backyard.

Finally, big government means big spending, and even bigger deficits.

The Congressional spending ceiling for fiscal year 1976 is $367 billion dollars. That's over a billion dollars a day, every day of the year, that your government will be spending.

I cannot comprehend a billion dollars, except to put it in these terms: If you piled a billion dollars on top of each other -- and you know how thin a dollar bill is -- the stack would reach almost 58 miles into the stratosphere.

Another way to look at a billion dollars is to say that if a man were given a thousand dollars to spend every day of every year of every century beginning with the birth of Christ and continuing to this week, he and his heirs in over 19 centuries would not be able to spend the entire one billion. Yet, <u>we</u> will be spending that much every day of this upcoming fiscal year.

The Treasury Department will borrow 36 to 38 billion dollars for the first six months of this calendar year,

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with perhaps a similar amount for the remainder of the year.

The Treasury Department is well aware that borrowing very large sums of money may cause strains in the private financial markets. Although financial conditions normally ease during a recession, this time there may be difficulty financing our current large federal deficits for several reasons.

For one, since the current recession came after a considerable period of inflation, private financing demands are heavier than usual. Further, state and local governments have had their tax receipts reduced by the recession, and they will need to borrow substantial sums.

Governments at all levels -- local, state and Federal -- will borrow an estimated 80 to 85 percent of new funds available this year, leaving less than one dollar out of every five for investment in private enterprise.

Because the Federal government stands at the head of the line in the money markets, several possibilities may occur. A kind of unhealthy competition for funds might develop. Or the Federal Reserve could accommodate these enormous borrowing requirements by creating a more rapid growth in money and credit. In our view, this latter step could mean a re-accelerated inflation

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followed by a new recession.

There are different opinions as to how well the financial markets will be able to absorb these enormous credit demands. In Treasury's view, timing is the crucial element. These huge deficits can probably be financed without too great a difficulty at the current time because of slack in the economy. But there may be a very real danger of considerable financial trouble once the economic recovery picks up steam and is well underway. This may occur towards the end of this year or in 1976. The possible danger then will depend on the volume of federal credit demands that will be competing with the credit needs of the private sector.

In other words, if the deficits are as large as now seems likely, there is danger that as the economic recovery becomes more vigorous, and private credit demands rise, there may be very real problems.

Another question of some concern is how the deficit should be financed -- whether in Treasury bills and other short-term instruments or with the Treasury borrowing some of its requirements in the long-term capital markets.

We feel that diversification is the best debt management. While the largest portion of the debt will remain in relatively short maturities, a portion of it must be spread elsewhere in order to minimize the possible volatility of the short-term money markets.

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Obviously, if too much of the Treasury debt is in short-term maturities, the funding and refunding of massive amounts of this short-term debt can only intensify the competition for funds and the upward swing of interest rates.

Budget deficits are unavoidable during a recession. But no nation can permanently live this way. If large Federal spending programs and permanent tax cuts become a way of life then we could be in for a great deal of economic trouble.

The Administration will help business attract new investment capital by proposing tax reform legislation to boost spending for new plants and equipment. But we cannot have a one-time solution. We must make serious efforts to shift our national economic policy towards more savings and investment and towards less government control. We have lived too long upon the momentum of past economic growth. Now we must think in longer terms -- in terms of our children's future.

That future concerns all of us. I have two children now in their twenties. Much of my volunteer work centered around their activities and organizations during their teen years, and I have talked with many high school groups in New Mexico. I often brought my speech topic around to the free enterprise system, and I would ask each group of students how much profits they thought American businessmen made.

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These were bright boys and girls, but most of them thought businessmen made after-tax profits of around 40 to 50 percent. When I explained that, in fact, profits were around 4 to 5 percent, they would all but call me a liar.

Even adult Americans have some inflated ideas of business affluence. Opinion polls show that adults think corporations reap an average after-tax profit of 28 percent. When I point out to my own neighbors that bank depositors get more interest from an ordinary savings account than businessmen make in profits, it puts the whole thing in a new light.

It concerns me that we fail to help our children understand their own economic system. It concerns me that society as a whole is not more supportive. Most Americans will fly the flag for free speech and a free press, but free enterprise doesn't collect nearly as many cheers. Yet this system has given us the greatest mass prosperity and the highest standard of living of any nation on earth.

To bring it down to basics, I see the free enterprise story as having three major viewpoints -- that of the consumer, the worker and the businessman-worker.

We are all consumers, and we know that this particular viewpoint is "keep prices down on goods and services."

We all know that workers and labor unions very legitimately desire higher wages, job security and more fringe benefits. We are concerned and sympathetic when jobs are lost or there are other problems.

But when do we see the third viewpoint -- the businessman's viewpoint -- except perhaps on the back pages of the financial section of the newspaper? Who gives John Q. Public, and his children, an informed or sympathetic insight into what the businessman thinks or expects, or what <u>his</u> problems are?

Our popular culture is geared for <u>dramatic</u> problems, not <u>difficult</u> ones.

Today's TV heroes are cops, cowboys, doctors, and lawyers. When was the last time you or I, or our children, saw a banker, an accountant or grocery store owner as the hero of any program? And of course TV is the formative influence on today's young children.

In grade school and high school, economics is not only the "dismal science" but often the missing science.

In college, there appears to be something of an anti-business atmosphere in liberal arts programs. How many books have you read where the protagonist was a businessman? How many professors, outside of business courses, have had a career or a close relationship with the business world? Where in our culture do we see accurate or sympathetic portrayals of business people --

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instead we have the Babbitts and the Willy Lomans.

Indeed, how many Congressmen -- dealing with billions, setting economic policies -- how many Congressmen have a business or banking background, as contrasted with a legal background?

This low visibility is partly the fault of business people themselves. They get together in their own groups, where accountants talk to accountants, manufacturers talk to manufacturers, bankers talk with bankers, and so on. That's natural and comforting, but perhaps an outreach to other groups would help correct some of the common misconceptions.

What I'm saying -- and I think others are saying -- is that I am concerned because our free enterprise system is not well understood by adults, and even less by children. What I'm also suggesting is that, in this day when many people feel there's nothing they can do about large, complex economic problems, there is something we can all do. And that is to see that our young people do have the opportunity to learn about the economic system and its inter-relationships.

Some banks are actively involved. Earlier this month, I spoke before the Oklahoma City Chamber of Commerce, and I discovered that one of their city's

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large banks is sponsoring a competition for viable new business ideas among teenagers. They offer the youngsters money to test their new ideas, and they also donate money to innovative grade and high school economics teachers. I should add that Oklahoma requires all state-supported schools to include economics in their curriculum.

I am pleased that Rhode Island banks sponsor consumer education programs, and I understand that just last week your Senate passed a resolution recommending economic education in high schools to the Board of Regents.

I applaud these efforts. I believe they will mean better citizens and, in the long run, better public servants as well.

I have talked of some of the problems and changes in American life. We all know of others. In the last year alone, we have had a new President and Vice President, both of whom were appointed. We have lived through serious inflation, severe recession, oil shortages, and major adjustments in our foreign policy. But despite all of this, our Ship of State still sails; the sky hasn't fallen; our economic system continues to operate; our gas tanks are full -- for a price -- and the laws of supply and demand still operate. We remain an incredibly strong nation both in spirit and in material goods.

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For a long time, we Americans have told each other what's wrong with our society. Now it is time to speak to the good in each other.

But we need to do more than speak. We need to act.

We need to see that our children understand their own economic world. We need to accept the fact that there truly is no "free lunch" when it comes to the economy. And we need to transmit to our Congressmen our concern that good economics must become good politics as well.

As Americans, we can build on many strengths. In this time of the Bicentennial, let us look back at our 200 years as a going, growing Nation. Then let us look forward with confidence as we go about doing our jobs, raising our families and helping our society.

Thank you.

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 UPON DELIVERY
Tuesday, May 20, 1975

FOR INFORMATION CALL:
(202) 456-6757

REMARKS OF ALBERT REES
DIRECTOR OF THE
COUNCIL ON WAGE AND PRICE STABILITY
BEFORE THE
WASHINGTON STATISTICAL SOCIETY
WASHINGTON, D.C.
MAY 20, 1975
8:00 P.M.

The Council on Wage and Price Stability Act, Public Law 93-387, directs the Council to "improve wage and price data bases for the various sectors of the economy to improve collective bargaining and encourage price restraint." Because of its small size and limited budget, the Council cannot engage in the extensive, routine collection and processing of statistical data. For this we must rely on the permanent established statistical agencies of the Government. We are therefore statistics users, not statistics producers. However, we believe that we have a clear mandate to be critical users, and to press actively for the improvement of wage and price statistics.

I am a labor economist by trade, and have been more involved with wage data than with price data. Nevertheless, I have dabbled in price statistics from time to time, even going so far as to construct a consumer price index for the period 1890 to 1914. And I should like to talk about price statistics this evening; in particular about the Wholesale Price Index. The Council on Wage and Price Stability is planning to commission a new study of the Wholesale Price Index and I should like to explain why we feel that one is needed.

Nothing I shall say should be construed in any way as a criticism of the Bureau of Labor Statistics, which is an organization whose competence and dedication are unquestioned. Rather, I shall be arguing for giving BLS more guidance from users and more resources so that it can do a still better job. The Wholesale Price Index and its components are being used increasingly by the public, the press, and the Congress to judge the adequacy of the pricing performance of particular industries. In my judgment, the WPI is not now equal to the new demands being put upon it. In particular, it is not equal to the needs of even the mildest incomes policy, and the Council on Wage and Price Stability is therefore heavily dependent on data voluntarily submitted to it by industry.

The WPI and its components can be used for macroeconomic analysis or for more detailed studies of particular sectors, and the interest of the Council on Wage and Price Stability is largely in the second area. For this reason, I shall skip over such interesting questions as these: What is the meaning of the universe from which the entire WPI is drawn? Or, what is the proper basis of the weights by which segments of the index are combined? That is, should one use sales value weights or value added weights, or some other weighting system? Others have spoken to these questions recently, and I have little to add to their views. Instead, I shall be concerned with the meaning and accuracy of the series for particular items and commodity groups. It should be pointed out, however, that no amount of reweighting can do much for an index if it is not accurate at the item level.

Price quotations for the WPI are obtained from several sources; including organized commodity exchanges, trade publications, list prices reported by sellers, and prices paid as reported by buyers. The use of buyers' prices is relatively recent. Such prices were introduced into the WPI in response to critics who complained that list prices quoted by sellers were sometimes unrealistic, artifically rigid, and did not represent the true movement of prices to purchasers. In principle, the inclusion of buyers' prices in the index is a step forward. As it has been applied in practice, however, this change is of more doubtful value. The user has no way of distinguishing buyers' prices in published WPI indexes, or of knowing how extensively and where they are being used. The only way to get such information is to talk to the commodity analyst responsible for a particular series. The results of such inquiries are not always reassuring. Our staff was puzzled by the recent movement of the price series for primary aluminum ingot. On inquiry, we were informed that the series contained one quotation from a trade journal and five quotations from buyers. These six quotations are combined in a simple average. Because quotations from sellers and buyers may behave differently in systematic ways, it does not seem desirable to average them together. It would seem to be far preferable to keep them separate, and to identify each series as representing buyers' prices or sellers' prices.

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It should also be noted that buyers' and sellers' prices do not always represent two sides of the same transactions. For example, steel and aluminum prices collected from domestic users will include imports; those collected from domestic producers will not. There are frequently much larger changes in the prices of imported metal than in the prices charged by domestic producers. One solution to this problem would be to collect prices of imports from buyers and to give them a weight in the index based on the share of imports in domestic use.

It is not always necessary to collect prices from buyers to get true transactions prices rather than list prices. Recently, I had discussions with several executives of a major food processing firm who informed me that their firm is a WPI reporter. On one product included in the WPI, this firm frequently offers substantial promotional discounts. These discounts are not reported to BLS simply because it is the firm's understanding that BLS wants the list price at all times.

The frequency and size of special discounts and extra charges in some product lines producers substantial differences between WPI price measures and alternative measures, both in movement and in level. Recently, our staff has compared WPI prices for selected steel products with the implicit prices obtained by dividing revenues by shipments using Bureau of the Census data from "Current Industrial Reports." In 1973, the WPI average price for hot rolled carbon sheet was $174 a ton; the Census implicit price was $154. For plate other than floor plate, the WPI price was $179 a ton; the Census implicit price was $200. Evidently there were net discounts in the first case and substantial extras in the second. The same factors can also produce substantial differences in measures of price change. From 1970 to 1971 the WPI series for standard carbon tee rails rose 12 percent; the Census implicit price rose 20 percent. From 1972 to 1973, the WPI series for reinforcing bars from new billets rose 8 percent; the Census implicit price rose 16 percent.

In many cases the effective price of a commodity to the buyer can be altered by changes in the terms of sale such as freight allowances, credit terms, or the ability of the buyer to reject shipments or claim adjustments for defects. Such terms tend to move in favor of the buyer when demand is weak and in favor of the seller in times of shortage.

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We have evidence that in some cases such factors can make an appreciable difference in the size of a price change over a period of several months. However, such factors are extremely difficult to incorporate into price indexes, and any refinement of the WPI to capture such effects on a systematic basis may well lie far in the future.

As an example of the importance of terms of sale, I draw on some confidential reports provided to the Council on Wage and Price Stability by several major steel buyers. These buyers report that during 1974, discounts for cash payment were reduced from 2 percent to 1/2 percent, which increased steel costs by up to 1-1/2 percent. The elimination of "freight equalization," or absorption of freight costs by distant mills, added approximately 2-1/2 percent more. Some steel mills were no longer willing to hold steel made to user specification in inventory until it was needed. The new practice, called "make and ship," has been estimated to cost some users another 2 to 2-1/2 percent. The sum of these changes is a 6 percent increase in cost beyond that reported in the WPI.

Another type of information of interest to users of the WPI and not now available except by special inquiry is simply the number of quotations that make up a series and some measure of the dispersion among quotations. To provide such information would tend to reveal areas in which the index is weak. Yet I think that it would be helpful and proper for users to have this information, where feasible.

For many WPI items, an average actual price is published -- for many others it is not. Apparently in the latter cases, it is felt that the movement of the series is more accurate than the level. However, failure to give the average price deprives the user of one more bit of information by which he can judge the accuracy of the series if he has independent information.

When one moves from the individual item series in the WPI to broader components, problems of item weighting necessarily arise. For example, the WPI includes four series on beverage cans which are combined using 1963 weights. These weights give the two series for aluminum cans 5 percent of the total weight. In 1974, aluminum cans were 37 percent of total beverage can sales. Such cases raise the questions: How often should WPI weights be revised? Are they now revised frequently enough?

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Finally, there are important questions concerning the selection of items for inclusion in the WPI. One of these concerns the overlapping of items between the Wholesale Price Index and the Consumer Price Index in areas common to both indexes. The WPI is widely interpreted as predicting price movements that will show up at retail with an appropriate time lag. It would seem to be logical that the performance of components of the WPI as predictors of corresponding components of the CPI would be improved by having as many identical items as possible. However, items are frequently found in one of the indexes, but not in the other. Let me give a few examples from an area in which we have a study under way, cereals and baked goods. The CPI index for cereals and bakery products contains nine items: flour, cracker meal, corn flakes, rice, white bread, whole wheat bread, cookies, layer cakes, and cinnamon rolls. Of these nine items, only four are also represented in the WPI by published item series, namely white bread, cookies, flour, and rice. However, the WPI includes five other item series in this category that are not in the CPI -- crackers, rolled oats, corn meal, macaroni, and pie crust mix. Obviously, each of the fourteen items that appears separately in one of the indexes or the other is sold both at wholesale and at retail, and its importance at the two levels should be roughly the same. (The exception to this statement is white bread, which does appear in both indexes and is frequently baked by retail chains for sale in their own stores.) The appearance of common items in the two indexes would also be helpful in the study of the movement of retail margins, a matter of interest both to retailers and to consumers.

In some areas of the indexes there are no common item series at all -- for example, frozen vegetables are represented by peas, lima beans and french fried potatoes in the WPI and by broccoli in the CPI.

It will be clear to anyone in the audience that these examples have not been generated by a careful study of the WPI. Rather, they are the kinds of things that users run across in the course of their ordinary use, and that make them aware of the need for study. Some previous studies of the WPI have, of course, been done. One is the study by Robert J. Gordon on the wholesale prices of investment goods in which he concludes that the WPI substantially overstates upward price trends. I cannot tell to what extent the sorts of problems I have raised thie evening contribute to the sorts of discrepancies between alternate price measures which Gordon has found.

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Little, if anything, I have said will come as a surprise to anyone in the Bureau of Labor Statistics. They are clearly aware of all of the problems I have mentioned, and others as well. If we differ at all, it will be over the propriety of airing our dirty statistical linen in public. But I cannot see how we can get public support for better statistics unless the public is aware of the problems.

More broadly, I have found during the past year that the Government undertakes many programs costing hundreds of millions of dollars, either in direct budget expenditures or in costs imposed on the private sector on the basis of seriously inadequate data and often inadequate analysis of the data that are available. The willingness of Congress, executive branch agencies, and interest groups to make decisions or advocate positions on the basis of totally inadequate data is nothing short of terrifying. If we built bridges on the basis of the kind of statistics and analysis that we sometimes use to form economic and social policy, the death toll from drowning could well exceed the death rate from all other causes. Innovations in social and economic policy require experimentation and testing before they are introduced or mandated on a broad scale, just as new drugs and new hardware require testing. We must be willing to spend on the improvement of economic and social statistics and on their use in analysis a little more of the resources that we are often so ready to spend on new Government programs and regulations.

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OIL PRICES

Today as never before oil pricing 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. Recently there have been indications that the price of oil will increase soon and that such an increase would be justified. Oil pricing is certainly a complex matter, but it is important to try to understand more of the economics and less of the politics of oil pricing.

OPEC has defended the oil price explosion on economic grounds. In fact, the price rise for crude oil had no economic basis. The present price of oil bears no relationship to economic realities -- not to the production of oil, not to the cost of alternative sources of energy, and not to the costs of other goods traded on world markets.

It is important not to lose sight of the economic damage that the enormous increase in oil prices has done throughout the world. The adjustment forced on the industrial structure of the world was difficult enough, but that is not the most important impact. The really serious damage was the impact on the poor -- on both the less-developed countries of the world and on the poor in the industrialized nations. Just consider, for example, the rise in utility bills that low-income people in New York City have had to pay.

The oil producing countries have spoken of a 35 percent loss in purchasing power since oil prices went up in late 1973, early 1974. Our data, however, shows that the prices of imports to the oil-producing nations of the Middle East went up about 24 percent during 1974. Moreover, about one-third of that rise can be traced right back to the earlier rise in oil prices. In fact, the impact of this event on inflation may have been much larger than we can measure. The shock of the quadrupling of crude oil prices -- oil being such a pervasive commodity -- set off a wave of rising inflationary expectations everywhere that added greatly to prices, over and above the increased cost of oil itself.

Even leaving those questions about the data aside, price comparisons should not be made starting <u>after</u> the 1973-74 oil price increases since those increases put the oil countries at an enormous economic advantage.

A justification offered for the earlier price rise is that the prices of other commodities had risen. OPEC has cited a fourfold rise in the price of wheat, a 1200 percent rise in vegetable oil and a 2700 percent rise in sugar.

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However, its important to complete the economic picture with respect to other commodities. First, wheat and vegetable oil and sugar are all traded in essentially free markets, and price increases have taken place as a direct response to changes in world-wide supply and demand -- especially because of the shortages that developed from the disastrous crop production of 1972 and 1974.

By contrast, the price of oil went up because of the actions of the OPEC cartel to artifically restrict the supply of oil. There is no shortage of oil -- indeed, there is a glut. OPEC production is now almost a third below their capacity. Control over supply, however, is being used to maintain the four-fold price increase. This is an entirely different economic situation from the price increases for wheat and other commodities that trade in open, competitive markets. In the case of these products, in fact, the price rise was a signal to farmers to produce more food, which they have done whereas the OPEC nations continue to cut their oil output.

Second, it is important to emphasize that there have been the price declines in many commodities as well as the increases. Competitive markets have prices that go down as well as up. For example, the price of wheat went up to almost $6.00 per bushel in U.S. markets in early 1974, but has since come down to about $3.35. Refined soybean oil hit a peak of about 50¢ per lb. in August 1974, but has since come down to around 30¢. And raw sugar, which rose from around 11¢ per lb. here in the United States in late 1973 to a peak of about 62¢, has plummeted to around 19¢ currently.

Since oil is paid for in dollars, the devaluation of the dollar has been mentioned as reducing the value of oil. In fact, however, the dollar devaluations were completed by the time of the oil embargo and, although the dollar fluctuates on the foreign currency markets (like other major currencies), its current value is just about where it was two years ago.

Finally, to complete the picture, it is necessary to look at the prices of the goods that are imported by the oil countries of the Middle East as against the price at which they export their oil. Since 1955, as shown on Chart 1, OPEC revenues per barrel of oil have risen from 96 cents to over $10 -- an increase of more than 10 times. During that same time span, their import prices are estimated to have gone up to about 220 percent of their 1955 level. Thus, for these countries export prices have gone up almost 5 times as much as import prices. And if you make that same comparison starting any year since 1955, the same result will show up: the rise in oil prices dwarfs the rise in general inflation.

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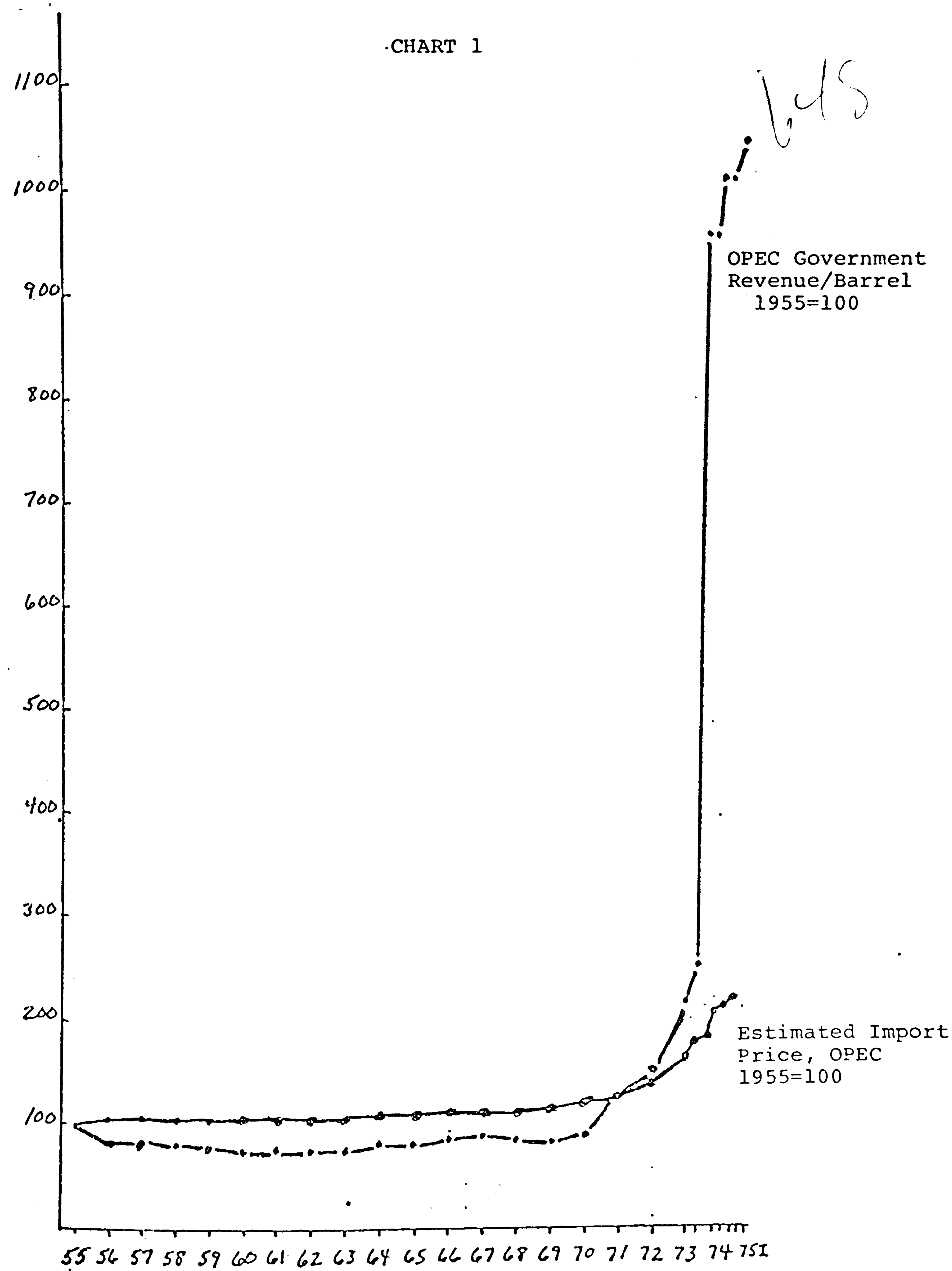
This ratio of export and import prices is what economists call the "terms of trade." By this measure -- indeed, by any measure -- there is no basis for the claim that the prices OPEC pays have gone up faster over the years than the prices they receive. Using 1955 as a base, our figures (Chart 2) show an increase in the terms of trade of the Middle East oil countries (i.e., in their favor) from 100 in 1955 to about 115 in early 1973, then a big jump to 525 in early 1974, and down to about 480 at the end of 1974. With those countries now almost 5 times better off than they have been historically, I see no way that the present price of crude oil -- let alone another increase can be justified on economic grounds.

Treasury Department
May 22, 1975

CHART 1



OASIA Research
May 21, 1975

CHART 2

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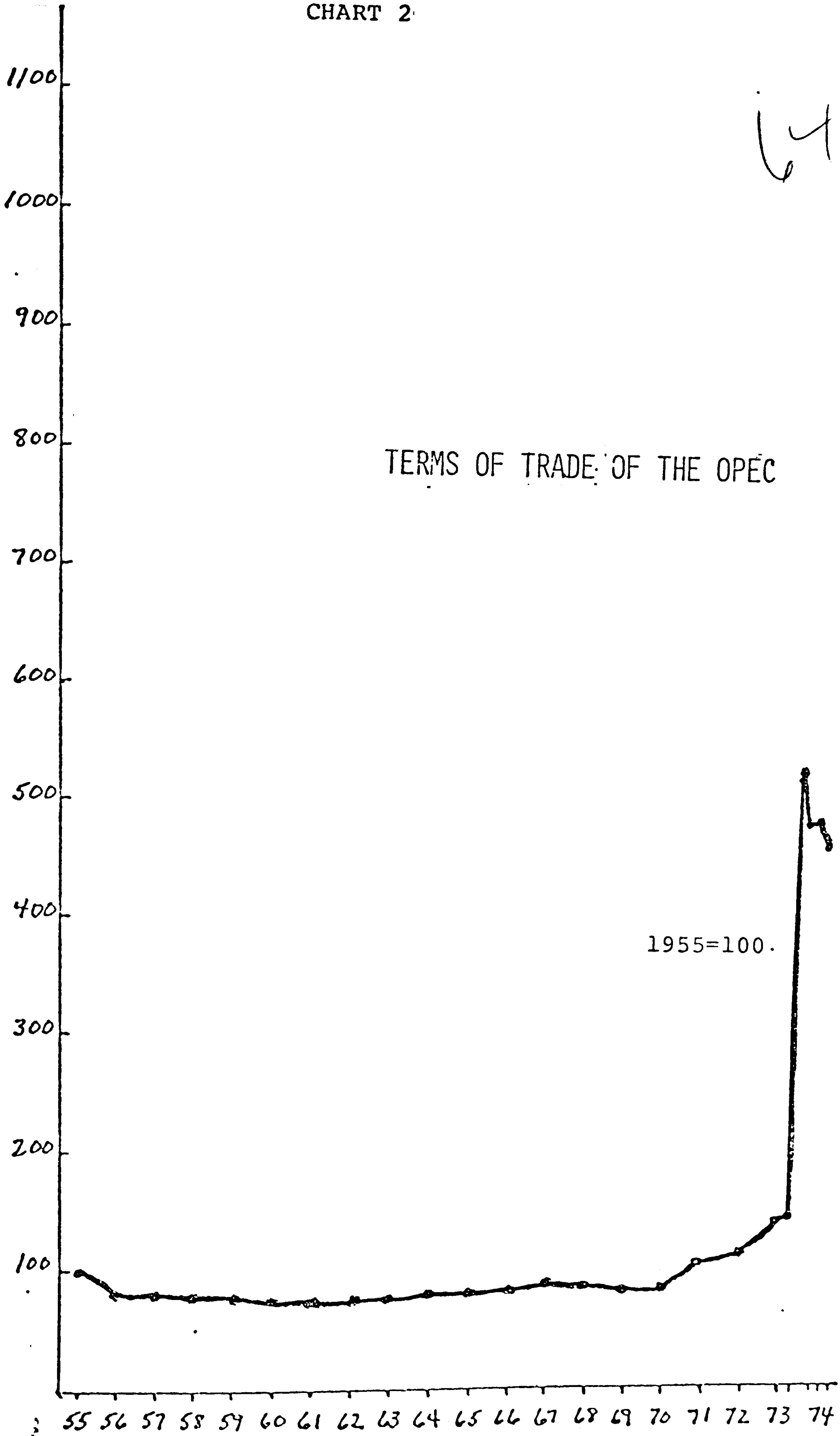

OASIA Research
May 21, 1975

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

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FOR IMMEDIATE RELEASE May 21, 1975

FORMATION OF COMMITTEE ON FOREIGN INVESTMENT IN THE UNITED STATES

Pursuant to Executive Order 11858 signed by President Ford on May 7, 1975, Secretary of the Treasury William E. Simon has designated Under Secretary For Monetary Affairs Jack F. Bennett to be chairman of the new interagency Committee on Foreign Investment in the United States. The designated representatives of other Government departments and agencies are: Thomas O. Enders, Assistant Secretary for Economic and Business Affairs, Department of State; Robert Ellsworth, Assistant Secretary for International Security Affairs, Department of Defense; John K. Tabor, Under Secretary, Department of Commerce; the Assistant to the President for Economic Affairs, L. William Seidman; and John M. Dunn, Acting Executive Director of the Council on International Economic Policy.

The major tasks of the Committee are to assess general trends and significant developments in foreign investment and to review investments in the United States which, in the judgment of the Committee, might have major implications for the U.S. national interests. The Committee is also responsible for considering proposals for such new legislation or additional administrative action as may be appropriate. The Committee will, as appropriate, seek the advice of other parts of the Government.

The Committee held its first meeting on May 20. The Committee reviewed procedures being developed for advance consultations with foreign governments on their major prospective investments in this country. It is anticipated that consultations with foreign governments will take place through diplomatic channels. Private investors wishing to consult on major foreign investments in the United States should contact the Secretary of the Committee on Foreign Investment in the United States, Room 5100, Main Treasury, Washington, D.C. 20220 (telephone number 964-2386).

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The Committee also reviewed the plans for the new Office on Foreign Investment in the United States being established by the Secretary of Commerce in order to carry out his functions under Executive Order 11858. The Office will be located in the Domestic and International Business Administration and will be headed by Deputy Assistant Secretary Lawrence A. Fox. The new Office will obtain, consolidate, and analyze information on foreign investment in this country and will also submit to the Committee reports, analyses, data, and recommendations relating to foreign investment in the United States, including recommendations as to how information on such investment can be kept current.

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FOR IMMEDIATE RELEASE May 21, 1975

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for 364-day Treasury bills to be dated June 3, 1975, and to mature June 1, 1976 (CUSIP No. 912793 YK6). The bills will be issued for cash and in exchange for Treasury bills maturing June 3, 1975.

Tenders in the amount of $1,370 million, or thereabouts, will be accepted from the public, which holds $767 million of the maturing bills.

Additional amounts of the bills may be issued at the average price of accepted tenders to Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, which hold $1,035 million of the maturing bills.

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

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Wednesday, May 28, 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

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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 $500,000 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 June 3, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 3, 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
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS

FOR RELEASE AT 8:00 P.M., May 22, 1975

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ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
TO THE AMERICAN IRON & STEEL INSTITUTE
NEW YORK CITY, MAY 22, 1975

Mr. Jaicks, Members of the American Iron & Steel Institute, and Distinguished Guests.

I warmly welcome this opportunity to talk with the leaders of an industry that has been a driving force in America's economic growth and is even more central to our hopes for the future.

In developing friendships with many of you over the years and in reading the recent speeches by some of the most articulate spokesmen in your industry -- men such as Frederick Jaicks and Edgar Speer -- I have learned that you and I approach the nation's most critical economic issues in much the same way. All of us prefer free enterprise to a managed economy. All of us know that the preservation of a strong system of private enterprise depends upon the maintenance of adequate profits and a much greater emphasis upon capital investment. We are increasingly distressed by the staggering growth of Federal spending. And we want to rein in the new breed of government regulators who are riding roughshod over the traditional boundaries between the public and private sectors.

All of this is clear. What is not so obvious is how we can translate our visions into concrete reality -- and in fact, whether we can ultimately succeed. Let's face it: free enterprise is on the defensive in the United States today, and the hour for saving it -- and our personal freedoms along with it -- has grown late, indeed.

Tonight I would like to share with you my own thoughts on where we stand now and how we should proceed.

Ending the Recession

For understandable reasons, most economic policy makers have been preoccupied recently with the challenge of ending the recession and slowing the rate of inflation. Fortunately, we now appear to be nearing the end of the recessionary cycle and the inflation rate, while still unacceptably high, has been appreciably reduced. As of late last year, consumer purchases and production were falling rapidly in most sectors of the economy, and inventories of unsold goods were piling up. Consumer purchases have turned around this year. Retail sales rose at more than a 10 percent annual rate in the first quarter of this year after a decline of about the same magnitude in the fourth quarter of last year. Moreover, the inventory backlog is now being liquidated at record rates. This entire process had to get underway before the economy itself could begin to recover.

There are many other hard facts that attest to the improvement in the underlying economic situation, including the reduction in job layoff rates registered in April, the improvement in new orders for durable goods, the upturn in consumer confidence shown in the Lou Harris poll and elsewhere, and the rise in the Dow Jones of over 40 per cent since the low of 1974. I remain confident that the worst of the recession is behind us and we will be on the road to recovery before the end of this year.

Have We Learned a Lesson?

Although the recession, and the inflation that has caused it, have both imposed many personal hardships, we should also be aware that the recession is performing some very useful, even vital, functions within our economy. Earlier this month, the Chairman of the Federal Reserve Board, Dr. Arthur Burns, pointed out what some of these functions are.

First, as he said, it is correcting the imbalances that developed over the past decade between the production and sale of many items, between capital investment and consumer spending, and between the trend of costs and prices.

Second, business managers are responding to the recession by introducing greater efficiencies into their operations, eliminating wasteful expenditures, concentrating their production in more modern and efficient installations, and by encouraging better work habits within their organizations.

Third, the recession is improving the condition of financial markets. As credit demands have declined and monetary policy has eased, interest rates have moved to lower levels, commercial banks are beginning to rebuild their liquid assets, and record levels of funds have begun to flow back into the thrift institutions, which is a necessary precondition for an upturn in the housing industry. At the same time, nonfinancial corporations are taking the opportunity to improve their financial positions.

Fourth, the recession is helping to wring inflation out of the economic system. General price stability may not yet be within sight, but we are moving in the right direction.

These were the four items on Arthur's list--the "benefits", if you will, of the deepest recession since the Second World War. With a generous dose of optimism, I hope that when the history of this recession is written we can add one more item to that list which is even more important: that we will have finally learned our lesson about the dangers of shortsighted, inflationary economic policies and we will begin taking a longer view toward future needs.

I have always believed that government officials should work with the view of turning over to our children a country that is better and stronger -- that offers greater opportunities for spiritual as well as material enrichment -- than the country we have inherited. Unfortunately, that approach has rarely been followed. Instead, we have become accustomed to living only for today. In a binge of excessive personal consumption and overspending by the government, in the whirl of the "go-go" years as they are now called, we have been burning the candle at both ends -- living off our inheritance and mortgaging our future at the same time. Hopefully, having suffered through this recession and having paid such a painful price for our past sins, we will now put our economy back on a course that is sustainable over the long-term both politically and economically.

The Immediate Test

The most immediate test of our resolve is taking place right now as we hammer out policies that will determine the shape of our economic recovery over the next couple of years. If we act wisely, the process of recovery will be sustained and durable. If we ignore the lessons of the past, we face a sorrowful repetition of the boom and bust cycles that have become so terribly familiar.

Clearly, our basic objective is to ensure that the recovery is strong enough to reduce unemployment but does not proceed so rapidly that we sacrifice the prospects for steady progress. Above all, we must resist the temptations of highly stimulative fiscal and monetary policies. The tax reduction that was recently enacted, along with the Federal deficit, will provide a strong boost to the economy. At the same time, however, a number of expensive Federal spending programs are now being seriously considered in the Congress on the theory that they are needed to speed up the recovery. Every committee in the Congress, with the understandable desire to enhance its own area of responsibility, seems bent on curing the recession all by itself. That is a laudable goal. Everybody wants to see unemployment reduced as quickly as possible. But the trouble is that, with few exceptions, the economic effects of new spending programs will not be felt for a year or two. Programs enacted in coming months would not pump stimulus into the economy until we are already on the road back to full capacity, and they would thus contribute significantly to new inflationary pressures. Furthermore, past history makes it clear that those programs would continue to add to Government spending and thus to the economic stimulus coming from the budget, for at least several years to come. I cannot over-emphasize the importance of holding the line on fiscal and monetary policies if we are to steer a steady course back to prosperity.

A second danger of oversized Government deficits--and one that has finally captured public attention--would arise in our private capital markets. For several months, I have been emphasizing that deficits in the range of $50 to $60 billion--the range that the Administration has set as a ceiling--will create some strains in our financial markets, but they should be manageable. However, deficits in the magnitude of $80 to $100 billion would be excessive and dangerous.

As I have stressed, the critical danger would arise not this year during a period of economic slack but next year and thereafter when the recovery takes hold and we have a rising tide of private and public demands for funds. Based on the President's budget and current enactments, we expect that the Treasury will need to borrow some $75 billion in funds this calendar year--a billion and a half dollars a week. In 1976, if the outlay totals projected in our Congress are an accurate projection and <u>if</u> there is an extension of the major tax-cut provisions, our borrowing needs could reach $84 billion.

I often hear that we should ignore the consequences of inflationary policies until next year or thereafter. Let me tell you this: nothing could be more shortsighted. If we engage in irresponsible fiscal or monetary policies this year--if we try to spend our way out of this recession at a breakneck pace--it will be too late to worry next year: the next wave of inflation will already be set in motion. Fortunately, the American people show every indication that they understand the cruel hoax posed by huge new Federal deficits and they are standing with the President in opposing them.

The immediate impact of huge Federal demand during a period of recovery would depend, of course, upon the monetary policy of the Federal Reserve. Monetary policy is going to be a critical element in shaping our economic prospects both now and in the future. If, as the recovery takes hold, oversized Federal deficits create strong competition for funds and the Federal Reserve pursues a moderate policy, there is a possibility that we would drive up interest rates and abort the process of recovery. The other alternative is that the Federal Reserve might seek to accommodate the enormous borrowing requirements of the Federal Government, as well as those of the private sector, by creating a more rapid growth in money and credit. That might postpone the adverse impact on the recovery for perhaps a year or two, but the consequences of that action would soon catch up with us in the form of a reaccelerated inflation. The only way to avoid such dire choices is to follow a course of prudence in our fiscal affairs.

I am not predicting that these events will transpire; rather, I am warning of the possible results of misguided fiscal and monetary policies. Moreover, I have been heartened by the recent debates on this matter within the Congress and by the efforts to impose a ceiling on the size of our deficits. The steps taken by the Congress in recent days reflect a growing awareness in our country of the need for fiscal and monetary responsibility. Some have interpreted my welcoming of the budget ceilings as an endorsement of the deficits they require. I mean no such endorsement. The ceilings that have been adopted are higher than is either necessary or appropriate. I intend only to applaud the Congress for beginning to move in the right direction and to express my hope that this growing awareness about budget dangers will become the foundation for sound policies in the next few years.

The Challenges Ahead

In taking a longer view toward our economic policies, it is imperative that we act not only with an eye toward the next year or two but beyond to the next decade and even to the end of this century.

The challenges we face are many and they are formidable. In the energy field alone, we must undertake a drastic restructuring of our government policies and create an economic environment that will encourage the investment of as much as $1 trillion in research and development before 1985.

We must also act to curb the enormous growth in government spending and roll back the tide of government regulations that now engulf almost every aspect of our private enterprise system. Businessmen often speak to me in horror about the problems they are encountering because of overzealous governmental regulation, and I must say that in most cases I agree with them. President Ford has also become increasingly concerned about those problems, and in coming months you can expect a concerted effort by the Administration to attack the worst of the regulatory abuses.

Another long-range test facing us today is in our foreign economic policy: with interdependence now a reality, we must be strong and innovative in working with other nations to create more effective international approaches to the problems of food, commodity prices, international finance and energy. And let us recognize at the same time that the greatest contribution we can make to a stable world -- indeed, the single most important element in our international economic policy -- is to maintain a strong, non-inflationary economy at home. We hear a good deal these days about American leadership. I can assure you that leadership begins at home -- and it is squarely based on the strength of our economy.

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In my remaining time here tonight, I would like to focus on one final challenge--one of the greatest for America and one that is particularly relevant to your industry. It is the overriding need to shift our domestic orientation away from personal consumption and enormous government spending and toward greater savings and capital formation.

It is an economic fact of life that increased productivity is the only way to increase our standard of living, and yet in recent years we in the United States have failed to meet the capital investment requirements that are necessary to support an expanding economy. We are rapidly expanding government payments to individuals--they have doubled in 10 years--but we are neglecting to provide adequate incentives for capital formation within the private sector.

Relative to the size of our economy, the level of capital investment in the United States since 1960 has been the lowest of any major industrialized country in the Free World. From that year through 1973, private investment here averaged about 17.5 percent a year of our GNP. By contrast, capital investments averaged 35 percent a year of the GNP in Japan, 26 percent in Germany, and 25 percent in France.

One clear reason for our weak performance has been the strong tilt of our economy toward personal consumption and government spending. A related part of the problem has been the serious deterioration in corporate profits since the mid-1960s. Too many people within our society are afflicted with nearsightedness when it comes to corporate profits. They believe that corporations are raking in profits at intolerable rates when, in fact, after the effects of outmoded accounting practices and inflation have been taken into account, the record shows that after-tax profits have dropped by 50 per cent since 1965.

Or consider the level of retained earnings--the funds that are needed to help provide a foundation for capital investment. In 1965, retained earnings stood at $20 billion. By 1973, they had dropped 85 per cent even though the economy had grown by over 33 per cent. And in 1974, retained earnings plunged to minus $16 billion. It is not unfair to say that we have been and remain today in a profits depression in the United States.

I recognize that in the steel industry, the corporate profit picture has improved over the last 2 years. But as you all know, those improvements come after a decade in which the steel industry was making insufficient amounts of money to invest in its own future. As Frederick Jaicks told another audience late last year, "Low profitability may be legitimately regarded as the single most important factor leading to the present and projected steel shortage."

Over time, a slow rate of capital investment can cast a long shadow over a nation's economic future. It is no accident that the United States -- with one of the lowest rates of capital investment among Western nations -- has also had one of the poorest records in productivity gains as well as in overall economic growth. During the period from 1960 through 1973, the average annual increase in productivity, in the United States was only half of that recorded in France and West Germany and less than one-third of the amount in Japan. This is a clear case of cause and effect: low rates of capital investment have meant low rates of productivity growth. It also bears repeating that only by increasing the productivity within our economy can we also raise our standard of living -- a fundamental in economics that we must never forget.

Looking ahead, it is obvious that our capital investment needs will be greater -- much greater, in fact -- than any we have experienced to date. Beyond simply replacing and modernizing existing plant and equipment, we must rebuild our housing stock; develop new energy resources; improve the quality of our environment; and rehabilitate our transportation system. The list is endless.

Plainly, enormous amounts of money will be needed. Our best estimate -- one that is based on studies by the Department of Commerce, General Electric, and others -- is that our total capital needs in the eleven year period from 1974 to 1985 will be in the range of $4-1/2 trillion. By comparison, during the eleven year period from 1962 through 1973, our total outlays for capital investment in the United States were $1-1/2 trillion. Thus, in coming years, our capital investment needs will be approximately three times the level of the recent past. I might note that the Arthur D. Little study commissioned by the Iron and Steel Institute and published last week was consistent with these estimates, showing that capital investment in the steel industry must be more than tripled to meet future demands.

We should also recognize the ill effects of inadequate capacity in our basic industries, which has resulted from inadequate investment in the past. The last two booms in this country occurred in 1968 and then in 1973. In the 1968 boom, the U.S. economy reached the limits of its physical capacity when the average unemployment rate was reduced to 3.6 percent and for married men was 1.6 percent. In 1973, by contrast, the limits of physical capacity were reached at a much earlier point in the business cycle -- when the unemployment rate averaged 4.9 percent and the unemployment rate for married men averaged 2.3 percent. These figures illustrate the fact that in 1973, when our economy had hit its limits of expansion, the unemployment rate was still relatively high.

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On further analysis, the reason for the early bump against our expansion ceiling in 1973 turned out to be a series of bottlenecks in those industries that process basic materials such as steel, nonferrous metals, paper, lumber, cement, textiles and chemicals. We had not run out of the capacity to produce automobiles and clothing and machine tools and other finished goods, but our capacity to produce steel, paper and other basic materials needed for finished goods was definitely being utilized at its limit.

In recent weeks there has been a sharp drop in steel production, but serious questions have been raised of whether economic recovery will quickly bring us back up against the limits of capacity, thus generating a new round of inflation. Dr. Pierre Rinfret, a respected economic consultant, has just published the results of a survey undertaken in April and pointing in an ominous direction. The Rinfret study shows that while capacity utilization in iron and steel has indeed fallen, it was still at a very high rate in April -- 82 percent -- even though we have suffered the worst economic contraction in a quarter of a century. On the basis of those figures and other figures, Dr. Rinfret believes we face a very substantial risk that shortages and bottlenecks will develop at a relatively early stage of the recovery.

I might also emphasize that the concept of operating at 100 percent capacity is misleading because, as you know, many companies operating at 90 percent or more of their listed capacity are really performing at the practical limits of their production. They need to preserve some reserve capacity to substitute for operating facilities that need repair or replacement. In addition, the marginal costs of developing final, listed reserve are often so high as to make their products non-competitive.

Once again, as in my discussion of problems in the capital markets, I am not predicting that we are in for the worst with regard to future shortages and bottlenecks. I only intend to underscore the dangers that arise from inadequate capital investment over a period of years and to point out the vulnerabilities that we carry into the future.

Conclusion

Ladies and gentlemen: A few months ago I had the privilege of preparing an article for one of our national magazines, the Reader's Digest, on the economic troubles that have resulted from misguided fiscal and monetary policies and heavy handed governmental regulation of private enterprise. The outpouring of letters I received, all strong in their support, convinced me that a large number of Americans share the views I have expressed here tonight. What also interested me about those letters was the consistent theme that ran through them, asking simply this: What can I do to help?

Without presuming to tell you how to run your businesses -- fortunately, for the most part, you still have the freedom to do that yourself -- let me tell you how you can help, because, believe me, your help is very much needed. I would make a special appeal to you for help in bringing the message of free enterprise to more of the American people and, with their support, delivering that message to Washington. I ask that you seek to preserve and strengthen the competitive marketplace within your own industry so that you will not invite further regulation of all industries. I ask for your help in stemming the flow of businessmen who come to Washington in search of subsidies and protection from economic competition - a practice that has only aided and abetted the movement to shackle our free enterprise system. And I urge your support for policies that will keep America strong and resolute in the world.

All of these things I ask not just for our sake, but for our children and our children's children because, in the final analysis, they are the ones who must live with the results of our decisions. Each of us is a trustee of their future.

Thank you.

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

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FOR RELEASE UPON DELIVERY

REMARKS BY THE HONORABLE GERALD L. PARSKY
ASSISTANT SECRETARY OF TREASURY
BEFORE THE
HARVARD BUSINESS SCHOOL CLUB
EMPIRE ROOM, LEXINGTON HOTEL
NEW YORK, NEW YORK
THURSDAY, MAY 22, 1975, AT 12:00 NOON

I am delighted to have the opportunity to be here today to discuss some important economic and financial issues facing our country. In so doing, I hope I can provide a better understanding of the policies we have been pursuing and what I believe needs to be done by government and the private sector in the period ahead.

It is clear to all of us that flaws exist today in our society as well as in our economy and we must work hard to correct them. However, in so doing, we must recognize our strengths and build on them rather than abandoning the system that has provided us the highest standard of living and the greatest prosperity ever known to man.

As we seek to strengthen our system, I think there are some basic principles that can serve as a strong foundation for us:

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First, economic cooperation should be a central ingredient and must be pursued not for political ends but as part of a world economic policy.

Second, the financial arm of the government must have the sophistication and expertise to deal with the new conditions and relationships precipitated by the international redistribution of wealth which has occurred in recent years.

Third, the government must implement policies designed to reverse the steady erosion of the capital base of the private industrial and financial sector.

I think it would be useful to focus on each of the principles in greater detail.

Economic Cooperation -- A Policy, Not a Means to a Policy

Too often in the past, the United States international economic policy was merely one of a number of weapons in our diplomatic arsenal, to be aimed and fired by political command. We often taxed, dutied, traded, shipped, boycotted, subsidized, borrowed and lent without enough regard for the economic consequences. The costs in terms of our economic policies and the world economic structure were too often written off as a secondary consideration to political objectives. We rarely recognized that these costs were real and would ultimately have to be repaid.

At the same time that we were not emphasizing enough the costs of subordinating economic objectives to political ones,

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we were also underestimating the potential for making a positive contribution to the world through the development of closer economic relations among nations. Much of my last year has been devoted to the cause of assisting the nations of the Middle East develop a sound economic structure for their long-term financial security. I believe that not only does the United States stand to benefit financially from close economic relationships in this part of the world but the atmosphere -- the spirit -- of cooperation engendered by such relationships can assist us in achieving lasting peace as well.

At a time when the potential for hostility is high and the political atmosphere uncertain, one response would be to do nothing on the economic side until the political situation improved. This, to me, would be a short-sighted view. Instead, I feel we must work for increased economic cooperation at the same time that we are seeking a political answer. It is for this very reason that we have pursued ways in which we can support the oil producing countries' legitimate desires to accelerate their own economic development, establish their industrial and agricultural bases, and improve the living standards of their peoples.

The Middle East -- As an Example

Let us look at our relationships with the countries of the Middle East in a little more detail. We must recognize that the transfer of wealth to these countries carries with it several interrelated considerations. First, the countries seek to develop their own economies; second, because these countries have a growing recognition of their international responsibilities, they seek opportunities to contribute to the growth of lesser-developed countries; and third, because several countries cannot spend all their revenues internally, they seek sound investment opportunities outside of their economies. Each of these goals offers us an opportunity to cooperate and build closer economic ties. To do this, however, we must develop a policy that is based on sound economics, rather than solely prudent politics. There's no doubt that political objectives are important, but they can't be the only basis for policy or the United States as well as the rest of the world will suffer.

To illustrate this, I think it would be useful to focus on two of the Middle Eastern countries: Iran and Saudi Arabia.

Iran

Iran has both substantial oil revenues -- about $20 billion in 1974 -- and the capacity to use them. Its already ambitious development plan was recently revised upward to reflect the sharp increase in foreign exchange earnings projected during the plan's term, ending March 1978, and extensive commitments have been made for foreign aid and investment. As a result, Iran's current account surpluses may be eliminated by 1980, if not before. Internally, Iran is seeking to develop its basic materials industry, especially oil, gas, petrochemicals, iron,

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steel and copper. To accomplish these goals, it must reduce the bottlenecks to domestic development, especially the shortage of skilled manpower and an inadequate transportation system.

As we have worked toward realization of these objectives, it has become clear that the answer does not lie solely with governmental involvement, but rather with active participation by the private sector. Accordingly, we are also establishing a joint business council to facilitate direct private sector contacts and exchanges of information on business opportunities.

Recently our two countries announced a target of $15 billion for non-oil trade between us over the next five years. Further review has suggested that this volume could reach as high as $20 billion or more.

Saudi Arabia

Saudi Arabia on the other hand has not achieved the development that Iran has, but its oil reserves and potential surplus revenues provide it with ample financial resources to achieve its domestic development objectives. It is eager to modernize and diversify to improve its national living standard and lessen economic dependence on oil exports. Saudi Arabia's development plan calls for expenditures of $140 billion by 1980. Emphasis is being placed on industries that are capital -- and energy -- intensive: petrochemicals, steel and aluminum; and in industries which meet the area's geographic needs: water development and conservation, desalinization and oasis reclamation.

Our cooperative efforts with Saudi Arabia have involved both assistance to their governmental and administrative operations and facilitation of participation by our private sector in joint venture projects. These efforts are now being conducted pursuant to a Technical Cooperation Agreement which formalizes arrangements under which we supply Saudi Arabia with technical advisors in diverse fields, all costs being paid by the Saudi Arabian Government through a trust fund established in the U.S. Treasury.

Most recently, we also agreed to establish a permanent office in Riyadh to coordinate these programs. This new office, which should be fully staffed and in operation by the end of the summer, will have a staff of 35 Americans and Saudis.

Our private sector, of course, has played a key role in the development of the Saudi Arabian economy since 1933 when an oil concession was granted to the company which was later to become Aramco. The continuing growth of the oil industry during the post World War II period and its increasing need for support have historically provided U.S. business with an important role in the Saudi economy.

In the past several years, this role has widened, largely as a result of the Saudi Arabian government's decision to commit a major part of its oil revenues to diversified large scale development; and American businesses have been entering varied fields. As a result, American sales to Saudi Arabia have also increased rapidly, U.S. exports to Saudi Arabia doubling between 1971 and 1972, increasing approximately 40 percent in 1973, and nearly doubling again in 1974 to reach a total of some $835 million.

External Investment of Funds

Our efforts to cooperate with these countries in their internal development has shown us that they will have funds available for placement outside their economies. One outlet will be to provide financial assistance to other countries.

OPEC countries have already made commitments totalling about $10.5 billion in bilateral assistance to the developing countries in 1974. Because disbursements take longer to effect, actual aid flows were slightly under $4 billion in 1974. Disbursements are continuing at a slightly higher level -- $1.5 billion -- during the first quarter of 1975. We hope that this trend will continue and that the terms of such aid will be sufficiently liberal to be of genuine assistance to the developing countries.

Despite the size of such commitments to other nations, certain oil producing countries will have funds available for investment in the economies of the industrialized world. And as all of you are too aware by now, it is this aspect of the new economic prominence which has attracted much attention and concern.

At this point, I seriously question whether there remains any quantitative basis for concern. The cumulative surplus estimates for the OPEC countries have dropped precipitously, from as high as the $650 billion forecasts of early last year to our most recent estimates of $200-$250 billion. And on my last trip, to the Middle East in April, experts in the countries directly involved expressed serious doubt that the actual amount would approach $200 billion.

Our analyses for this year confirm these projections. With the substantial reduction in the demand for OPEC oil that has occurred and the continuing strong growth in OPEC imports, we are now projecting that the 1975 OPEC surplus will be about $50 billion, or perhaps even lower. This represents a considerable drop from the $60 billion in 1974, and we expect these annual surpluses to trend downward in future years.

The impact on the U.S. of these surpluses is smaller than these estimates may suggest. In 1974, slightly more than $11 billion -- some 18 percent of the total surplus and barely half of the amount received by the U.K. -- flowed to this country. Of this $11 billion, well under $1 billion was placed in long-term private sector investments -- that is, all investments other than bank deposits and government securities. In the first four months of 1975 preliminary data suggest an inflow of OPEC funds into the United States of only about $2 billion, with an increasing emphasis being placed on longer maturity portfolio investments in Treasury and Federal-agency bonds, bank time deposits, and corporate securities.

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In short, neither our experience thus far nor our estimates of future OPEC accumulations and investments justify fears of massive domination of the U.S. economy. There is equally no basis for concern in the investment attitudes of the Middle East countries. Moreover, after careful review we have determinted that our own laws and procedures are adequate to deal with far greater investment flows than we now expect. Given the widespread concern, however, we did decide to take certain administrative measures to supplement legal arrangements, including the establishment of an interagency committee to serve as the focal point within the Executive Branch for policy making on foreign investment in the United States and the creation of an office in the Department of Commerce to provide analyses both developing trends in various categories of investment and of the prospective impact of significant individual investment proposals.

In addition, we are in the process of developing procedures whereby foreign governmental investors can consult with our government on prospective major investments in the United States. Such consultations will further increase our understanding of the goals and objectives of these countries.

Underlying this approach is the basic belief that there is no dire threat to the world or U.S. economy presented by the increased investment capabilities of the oil producing nations. I view funds available in the oil producing countries for investment abroad as a pool of savings that should be welcomed in this country. Not only do such resources offer us the opportunity to develop closer relations with other countries, but also they provide a source of additional capital at a time when it is clear that our capital requirements will be extensive. We should not legislate such capital out of our market.

Capital Formation in the United States

Seen in this way, foreign investment can be a part of a broader policy designed to shift our domestic orientation away from personal consumption toward greater savings and capital formation. Our policy toward foreign investment will not by itself bring about such a shift, but it can help. What else must we do?

The list of specifics is long and growing:

-- Regulatory reform to reduce or eliminate the unproductive expense of government intrusion into the process of business decision making.

-- Tax reform to neutralize existing biases toward consumption and borrowing and to encourage savings and investment.

-- Fiscal reform to reduce the inflationary pressures of excessive government spending and to maintain private sector access to the capital markets on reasonable terms.

Underlying all of these measures must be a significant change in attitude: before an investor will invest in equity or before a manager will reinvest earnings, he must be satisfied that the company in question will be afforded the prospect of a reasonable profit. In the final analysis, corporate profitability is both the major incentive for increased investment and an important source of funds for financing of investment.

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I don't know when profits became a dirty word and I certainly don't know how, but today's challenge to profits and the role they play in the capital formation process is real and to me rather appalling. A corporation can and should be looked at as simply an intermediary. It is created through the investments of its shareholders; purchases goods and services; it employs personnel and it produces a product. To the extent it performs these functions well, it earns a profit. And as a practical matter it can do one of two things with that profit: it can spend it on improvements to the business, improving its efficiency, increasing its output, or both; or it can pay that profit over to its owners, the shareholders of the corporation. In either case, the corporation is viewed by the market as a desirable vehicle for equity investment, thus further increasing the funds available for improvements in the business. And such improvements allow the cycle to begin again.

I need not point out to an audience such as this one that this "perfect cycle" of capital formation is infinitely more desirable than the "vicious cycle" of excessive private and government consumption, growing deficits, inflation and unemployment. And it cannot be emphasized strongly enough that it is corporate profits which is the key to both sides of the equation.

Profit means investment; investment means jobs and productivity; and jobs and productivity means quality goods and services and the ability to pay for them. Perhaps even more persuasive is the other side of the coin: declining or non-existent profits turn away potential investors (and their investments); these investors become consumers instead of savers; productivity declines and hard core inflation sets in. And the average member of the public, often the one who complains most about profits, is clearly the most immediate victim. I think there are few things more critical to our long-term economic well-being than conveying this simple message to the American people. Profitability is just as important to the worker and the tax payer, indeed, to all elements of our economy as it is to the shareholders of our corporations.

Conclusion

I have covered a lot of ground today, from the economic development of Saudi Arabia to the revitalization of what is the most complex and the most productive economy in the world; from the massive surpluses of the Middle East to the deficits of Washington. But despite the breadth of our exposure, and the wide diversity of our specific concerns, there are some relatively simple truths which must guide our conduct. In today's world, no economy -- indeed no society -- can survive and prosper very long in isolation. And no economy is big enough, or strong enough, or rich enough to ignore the economic rules of the game, either in its dealings with other nations, or in its own internal affairs.

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As we have developed policies at Treasury to respond to important changes in the world economic picture, I have attempted to adhere to these principles. Our careful pursuit of economic objectives has, in my view, led to progress in our overall relations with the countries of the Middle East. And as we consider our internal economic concerns, the same operating policies will be applied.

In this effort, it's important to understand that government, no matter how skilled or motivated, cannot take the place of private initiative. Government can help -- but in the end we must seek political and economic relations which will strengthen the ability of free people to work toward a common goal together.

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

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FOR IMMEDIATE RELEASE

May 23, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 2.8 billion of 13-week Treasury bills and for $2.8 billion of 26-week Treasury bills, both series to be issued on May 29, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing August 28, 1975			26-week bills maturing November 28, 1975		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.698 a/	5.151%	5.31%	97.246 b/	5.418%	5.66%
Low	98.677	5.234%	5.39%	97.206	5.496%	5.75%
Average	98.684	5.206%	5.36%	97.220	5.469%	5.72%

a/ Excepting 1 tender of $285,000
b/ Excepting 2 tenders totaling $1,475,000

Tenders at the low price for the 13-week bills were allotted 87%.
Tenders at the low price for the 26-week bills were allotted 40%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 65,945,000	$ 45,295,000	$ 23,500,000	$ 11,500,000
New York	4,025,765,000	2,181,815,000	3,490,880,000	2,095,280,000
Philadelphia	28,355,000	28,045,000	6,630,000	6,615,000
Cleveland	210,955,000	199,005,000	42,930,000	39,930,000
Richmond	24,985,000	18,985,000	39,605,000	20,805,000
Atlanta	29,900,000	27,690,000	84,125,000	54,725,000
Chicago	305,115,000	113,115,000	444,100,000	204,100,000
St. Louis	35,865,000	24,365,000	22,735,000	11,705,000
Minneapolis	35,685,000	33,425,000	23,310,000	19,310,000
Kansas City	34,840,000	32,840,000	20,255,000	14,660,000
Dallas	33,650,000	31,650,000	15,915,000	15,915,000
San Francisco	224,350,000	64,100,000	603,985,000	306,385,000
TOTALS	$5,055,410,000	$2,800,330,000 c/	$4,817,970,000	$2,800,930,000 d/

c/ Includes $346,890,000 noncompetitive tenders from the public.
d/ Includes $121,685,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE SOUTH CAROLINA BANKERS ASSOCIATION
MYRTLE BEACH, SOUTH CAROLINA
MAY 23, 1975

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GOVERNOR EDWARDS, DISTINGUISHED MEMBERS OF THE SOUTH CAROLINA BANKERS ASSOCIATION AND LADIES AND GENTLEMEN:

IT IS A PRIVILEGE AND A PLEASURE TO COME TO YOUR FAIR STATE TODAY. WHILE I AM NOT A SOUTHERNER BY BIRTH OR BY NATIVE UPBRINGING, I MUST SAY THAT I OFTEN FEEL THAT I AM A SOUTHERNER BY INCLINATION. THE WAY THAT THE PEOPLE OF THIS STATE AND YOUR NEIGHBORING STATES HAVE CONTINUALLY STOOD IN DEFENSE OF THIS COUNTRY AND MANY OF ITS GREATEST TRADITIONS DESERVES THE RESPECT AND PRAISE OF ALL AMERICANS.

THERE ARE TWO NATIVES OF SOUTH CAROLINA WHO HAVE RECENTLY MADE A MARK IN WASHINGTON AND MERIT SPECIAL MENTION HERE TODAY. ONE IS FRED DENT, WHO WAS THE FIRST MAN FROM SOUTH CAROLINA TO SERVE IN THE PRESIDENT'S CABINET SINCE JIMMY BYRNES

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OVER 25 YEARS AGO. FRED WAS A VERY FINE SECRETARY OF THE COMMERCE AND NOW HE IS SERVING AS THE SPECIAL TRADE REPRESENTATIVE IN IMPORTANT ECONOMIC NEGOTIATIONS WITH OTHER NATIONS. THE SECOND SOUTH CAROLINIAN IS A NATIVE OF THIS CITY AND IS WITH US TODAY, ALONG WITH HIS WIFE. MANY OF YOU MAY NOT KNOW JOHN GARTLAND, BUT HE'S NO STRANGER TO ME -- HE'S MY EXECUTIVE ASSISTANT AND PRACTICALLY LIVES WITH ME -- AND I WOULD LIKE TO INTRODUCE HIM TO YOU.

I WOULD ALSO LIKE TO PAY SPECIAL TRIBUTE TODAY TO THE SOUTH CAROLINA CONGRESSIONAL DELEGATION, AND ESPECIALLY THEIR VERY STRONG AND DEDICATED LEADER, STROM THURMOND. THE SOUTH HAS A PROUD TRADITION OF RAISING STATESMEN WHO ARE WILLING TO STAND UP FOR THEIR PRINCIPLES, AND I CAN ASSURE YOU THAT STROM THURMOND AND OTHERS ARE NOW STANDING AND FIGHTING FOR RESPONSIBLE ECONOMIC POLICIES IN WASHINGTON.

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SOUTH CAROLINA IS REPRESENTED IN WASHINGTON BY ONE DEMOCRATIC SENATOR AND ONE REPUBLICAN SENATOR; BEFORE THE LAST ELECTION, THE REPRESENTATIVES FROM SOUTH CAROLINA WERE MORE EVENLY DIVIDED BETWEEN DEMOCRATS AND REPUBLICANS. BUT WHEN IT COMES TO DEFENDING THIS NATION AND OUR NATIONAL HONOR, AS THE LATE MENDEL RIVERS USED TO SAY, WE ARE NEITHER DEMOCRATS, NOR REPUBLICANS -- WE ARE AMERICANS. THAT IS THE SPIRIT THAT CONTINUES TO CHARACTERIZE YOUR CONGRESSIONAL DELEGATION IN WASHINGTON TODAY.

BEFORE TURNING TO YOUR QUESTIONS, I WOULD LIKE TO TALK WITH YOU BRIEFLY ABOUT OUR NATIONAL ECONOMY. OVER THE LAST FEW WEEKS I HAVE SPOKEN AT A NUMBER OF FORMAL GATHERINGS WHERE I HAVE BEEN TRYING TO MAKE ESSENTIALLY THIS POINT: NOW THAT WE ARE BEGINNING TO EMERGE FROM THE DEPTHS OF THE RECESSION IT IS TIME THAT ALL OF US FINALLY BEGIN TO TAKE A LONGER VIEW OF OUR ECONOMIC FUTURE.

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ONE OF THE MAJOR REASONS WHY WE HAVE HAD A CHRONIC CASE OF INFLATION IN THIS COUNTRY, FOLLOWED ALMOST INEVITABLY BY A SEVERE RECESSION IS THAT FOR OVER A DECADE WE HAVE BEEN LIVING ONLY FOR THE MOMENT, RARELY FOR THE FUTURE. IN OUR GOVERNMENT, WE HAVE HAD ONE BUDGET DEFICIT AFTER ANOTHER -- 14 IN THE PAST 15 YEARS -- SO THAT WE HAVE BUILT INFLATIONARY PRESSURES AS WELL AS INFLATIONARY EXPECTATIONS INTO THE VERY FABRIC OF OUR ECONOMY. OUR MONETARY POLICIES PARTLY IN AN EFFORT TO ACCOMODATE OUR DEFICITS, HAVE ALSO PUMPED EXCESSIVE STIMULATION INTO THE ECONOMY OVER A 10-YEAR PERIOD. IN THE PRIVATE SECTOR, WE HAVE FOR MANY YEARS OVERCONSUMED AND UNDERINVESTED, SO THAT EVENTUALLY -- IN 1973 AND EARLY 1974 -- WE BEGAN TO EXPERIENCE CAPACITY SHORTAGES IN SOME OF OUR MOST CRITICAL INDUSTRIES. AND WE HAVE ELECTED POLITICIANS

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WHO HAVE PROMISED US THAT WE CAN CONTROL POLLUTION, REBUILD OUR MEDICAL SYSTEM, OVERHAUL OUR TRANSPORTATION, GUARANTEE THE GOOD LIFE TO THE POOR AND THE AGED, PROVIDE A COLLEGE EDUCATION FOR EVERYONE, FEED THE WORLD, IMPROVE OUR WEAPON SYSTEMS, AND CONTINUE TO INCREASE EVERYBODY'S REAL INCOME -- ALL AT THE SAME TIME. CLEARLY, WE HAVE BEEN BURNING THE CANDLE AT BOTH ENDS -- LIVING OFF OUR INHERITANCE AND MORTGAGING OUR FUTURE AT THE SAME TIME IN A DESPERATE BID FOR INSTANT PROSPERITY FOR EVERYONE. IT SHOULD HARDLY COME AS ANY SURPRISE THAT OUR OVERINDULGENT PAST HAS FINALLY CAUGHT UP WITH US.

AS WE BEGIN NOW TO WORK OUR WAY OUT OF THIS QUAGMIRE, IT IS TIME TO START DIRECTING OUR ATTENTION AWAY FROM THE INSTANT GRATIFICATION OF TODAY AND TOWARD THE CHALLENGES OF TOMORROW. WE MUST PUT OUR ECONOMY ON A COURSE THAT IS SUSTAINABLE BOTH POLITICALLY AND ECONOMICALLY OVER THE LONG RUN.

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THE IMMEDIATE TEST

THE MOST IMPORTANT TEST OF OUR RESOLVE IS OCCURRING RIGHT NOW AS WE HAMMER OUT POLICIES THAT WILL AFFECT THE SHAPE OF OUR ECONOMIC RECOVERY. CLEARLY OUR BASIC OBJECTIVE IS TO ENSURE THAT OUR RECOVERY IS STRONG ENOUGH TO REDUCE UNEMPLOYMENT BUT DOES NOT PROCEED SO RAPIDLY THAT WE SACRIFICE THE PROSPECTS FOR STEADY PROGRESS. ABOVE ALL, WE MUST RESIST THE TEMPTATIONS OF EXCESSIVELY STIMULATIVE FISCAL AND MONETARY POLICIES. THEY MIGHT HELP TO PULL US OUT OF THE RECESSION MORE QUICKLY, BUT IN THE END THEY ARE ALMOST CERTAIN TO GENERATE A NEW ACCELERATION OF INFLATION AND THEN ANOTHER RECESSION.

A SECOND DANGER OF OVERSIZED GOVERNMENT DEFICITS -- AND ONE THAT I HAVE HEAVILY EMPHASIZED IN RECENT MONTHS -- WOULD ARISE IN OUR PRIVATE CAPITAL MARKETS. THE CRITICAL DANGER WOULD COME NOT THIS YEAR DURING A PERIOD OF ECONOMIC

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SLACK BUT NEXT YEAR AND BEYOND WHEN THE RECOVERY TAKES HOLD AND WE HAVE A RISING TIDE OF PRIVATE AND PUBLIC DEMANDS FOR THE FUNDS IN THE CAPITAL MARKETS.

THE IMPACT OF HUGE FEDERAL DEMANDS DURING A PERIOD OF RECOVERY WOULD DEPEND, OF COURSE, UPON THE MONETARY POLICIES OF THE FEDERAL RESERVE. IF THE FED PURSUED A MODERATE POLICY, THERE IS A POSSIBILITY THAT HUGE FEDERAL BORROWING NEEDS COULD DRIVE UP INTEREST RATES AND ABORT THE PROCESS OF RECOVERY. THE OTHER ALTERNATIVE IS THAT THE FED MIGHT SEEK TO ACCOMODATE THE GOVERNMENT'S BORROWING REQUIREMENTS BY CREATING A MORE RAPID GROWTH IN MONEY AND CREDIT. THAT MIGHT POSTPONE THE ADVERSE IMPACT ON THE RECOVERY FOR PERHAPS A YEAR OR TWO, BUT THE CONSEQUENCES OF THAT ACTION WOULD SOON CATCH UP WITH US IN THE FORM OF REACCELERATED INFLATION.

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THE ONLY WAY TO AVOID SUCH DIRE CHOICES IS TO FOLLOW A COURSE OF PRUDENCE IN OUR FISCAL AFFAIRS.

I AM NOT PREDICTING THAT THESE EVENTS WILL TAKE PLACE; RATHER, I AM WARNING OF THE POSSIBLE CONSEQUENCES OF FOOLISH POLICIES. IF WE ACT WISELY, THE PROCESS OF RECOVERY WILL BE SUSTAINED AND DURABLE. IF WE IGNORE THE LESSONS OF THE PAST, WE FACE A SORROWFUL REPETITION OF THE BOOM AND BUST ROLLER COASTER THAT HAS BECOME SO DEPRESSINGLY FAMILIAR.

THE LONGER-RUN CHALLENGES

LET ME TURN NOW TO SOME OF THE LONGER-RANGE CHALLENGES THAT WE FACE, FOR IN MAKING POLICY CHOICES BOTH IN GOVERNMENT AND THE PRIVATE SECTOR, WE SHOULD BE LOOKING NOT JUST AT THE NEXT 2 TO 3 YEARS BUT ALSO AT THE NEXT DECADE AND BEYOND.

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IN THE INTERESTS OF BREVITY, I WILL DO LITTLE MORE THAN ENUMERATE WHAT I BELIEVE TO BE THE MOST SIGNIFICANT ECONOMIC CHALLENGES AHEAD:

THE FIRST IS TO ACHIEVE A BASIC SHIFT IN OUR DOMESTIC ORIENTATION AWAY FROM THE HEAVY EMPHASIS WE PLACE UPON PERSONAL CONSUMPTION AND GOVERNMENT SPENDING AND TOWARD A MUCH GREATER EMPHASIS UPON SAVINGS AND CAPITAL INVESTMENT. OVER THE LAST SEVERAL YEARS, WE HAVE TILTED OUR ECONOMY TOO FAR IN THE WRONG DIRECTION SO THAT WE HAVE HAD THE WORST RECORD OF CAPITAL INVESTMENT AMONG THE MAJOR INDUSTRIALIZED NATIONS OF THE FREE WORLD. OUR EMPHASIS UPON CONSUMPTION AND SPENDING MUST BE HELD TO BLAME, AS MUST THE DETERIORATING STATE OF CORPORATE PROFITS. AS A RESULT OF OUR POOR PERFORMANCE, WE HAVE ALSO HAD ONE OF THE LOWEST RECORDS OF PRODUCTIVITY GROWTH. IT BEARS REPEATING TO EVERY AUDIENCE THAT ONLY BY INCREASING PRODUCTIVITY CAN

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WE ALSO RAISE THE STANDARD OF LIVING. LOOKING AHEAD, IF WE ARE TO REALIZE OUR HOPES FOR AN EXPANDING ECONOMY AND INCREASING PRODUCTIVITY OUR BEST ESTIMATE IS THAT THE AMOUNT OF CAPITAL INVESTMENT OVER THE NEXT DECADE WILL HAVE TO BE THREE TIMES AS LARGE AS IT HAS BEEN IN THE LAST DECADE.

A SECOND GREAT CHALLENGE LYING AHEAD IS TO CURB THE ENORMOUS GROWTH IN GOVERNMENT SPENDING AND ROLL BACK THE TIDE OF GOVERNMENT REGULATIONS THAT NOW ENGULF ALMOST EVERY ASPECT OF OUR PRIVATE ENTERPRISE SYSTEM. THE IRRESPONSIBLE GOVERNMENTAL POLICIES OF THE PAST LED US STRAIGHT DOWN THE PRIMROSE PATH, AND WE MUST BE VIGILANT IN AVOIDING THAT COURSE IN THE FUTURE. THE PUBLIC IS NOT YET FULLY AWARE OF HOW MUCH ECONOMIC DAMAGE HAS BEEN CAUSED IN WASHINGTON, BUT I THINK THE MESSAGE IS BEGINNING TO GET THROUGH.

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A <u>THIRD</u> GREAT CHALLENGE IS TO DEVELOP MUCH GREATER SELF-SUFFICIENCY IN ENERGY. WE MUST UNDERTAKE A DRASTIC RESTRUCTURING OF OUR GOVERNMENTAL POLICIES AND CREATE AN ECONOMIC ENVIRONMENT THAT WILL ENCOURAGE THE INVESTMENT OF AS MUCH AS $1 TRILLION IN ENERGY DEVELOPMENT BEFORE 1985. JUDGING FROM THE RECENT PERFORMANCE BY SOME MEMBERS OF THIS CONGRESS -- THE GROSS DELAYS AND SHILLYSHALLING THAT HAVE CHARACTERIZED THE LAST FEW MONTHS -- WE HAVE OUR WORK CUT OUT FOR US.

A <u>FOURTH</u> CHALLENGE THAT I WOULD SUGGEST TODAY IS IN OUR FOREIGN ECONOMIC POLICY: WITH INTERDEPENDENCE NOW A REALITY, WE MUST BE STRONG AND INNOVATIVE IN WORKING WITH OTHER NATIONS TO CREATE MORE EFFECTIVE INTERNATIONAL APPROACHES TO THE PROBLEMS OF FOOD, COMMODITIES, INTERNATIONAL FINANCE, AND ENERGY. AND LET US RECOGNIZE AT THE SAME TIME THAT THE GREATEST CONTRIBUTION WE CAN MAKE

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TO A STABLE WORLD -- INDEED, THE SINGLE MOST IMPORTANT ELEMENT IN OUR INTERNATIONAL ECONOMIC POLICY -- IS TO MAINTAIN A STRONG, NON-INFLATIONARY POLICY HERE AT HOME.

A FINAL CHALLENGE -- AND ONE THAT IS THE MOST CRUCIAL TO THE PRESERVATION OF OUR PERSONAL LIBERTIES -- IS TO PRESERVE AND STRENGTHEN THE FREE ENTERPRISE SYSTEM IN THIS COUNTRY. PRIVATE ENTERPRISE IS UNDER HEAVIER ATTACK TODAY THAN AT ANY TIME IN THIS CENTURY. THE DISTRUST AND SUSPICION THAT STAINS OUR NATIONAL INSTITUTIONS, RANGING FROM THE HALLS OF GOVERNMENT TO OUR PLACES OF WORSHIP, IS DIRECTED MOST FORCEFULLY AT AMERICAN BUSINESS. THERE IS A MINDLESS DISREGARD THAT THE FREE ENTERPRISE SYSTEM HAS GIVEN THIS NATION THE HIGHEST STANDARD OF LIVING AND THE GREATEST PROSPERITY KNOWN TO MAN AND IT LIES AT THE VERY FOUNDATION OF OUR SYSTEM OF PERSONAL AND POLITICAL FREEDOM. FREE ENTERPRISE IS CERTAINLY ON THE DEFENSIVE, AND THE HOUR FOR SAVING IT -- AND OUR PERSONAL FREEDOMS AS WELL -- HAS GROWN VERY LATE, INDEED.

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CONCLUSION

LADIES AND GENTLEMEN: A FEW MONTHS AGO I HAD THE PRIVILEGE OF PREPARING AN ARTICLE FOR ONE OF OUR NATIONAL MAGAZINES, THE READER'S DIGEST, ON THE ECONOMIC TROUBLES THAT HAVE RESULTED FROM MISGUIDED FISCAL AND MONETARY POLICIES AND HEAVY HANDED GOVERNMENTAL REGULATION OF PRIVATE ENTERPRISE. THE OUTPOURING OF LETTERS I RECEIVED, ALL STRONG IN THEIR SUPPORT, CONVINCED ME THAT A LARGE NUMBER OF AMERICANS SHARE THE VIEWS I HAVE EXPRESSED HERE TODAY. WHAT ALSO INTERESTED ME ABOUT THOSE LETTERS WAS THE CONSISTENT THEME THAT RAN THROUGH THEM, ASKING SIMPLY THIS: WHAT CAN I DO TO HELP?

WITHOUT PRESUMING TO TELL YOU HOW TO RUN YOUR BUSINESSES -- FORTUNATELY, FOR THE MOST PART, YOU STILL HAVE THE FREEDOM TO DO THAT YOURSELF -- LET ME TELL YOU HOW YOU CAN HELP, BECAUSE, BELIEVE ME, YOUR HELP IS VERY MUCH NEEDED. I WOULD

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MAKE A SPECIAL APPEAL TO YOU FOR HELP IN BRINGING THE MESSAGE OF FREE ENTERPRISE TO MORE OF THE AMERICAN PEOPLE AND WITH THEIR SUPPORT, DELIVERING THAT MESSAGE TO WASHINGTON. I ASK THAT YOU SEEK TO PRESERVE AND STRENGTHEN THE COMPETITIVE MARKETPLACE WITHIN YOUR OWN INDUSTRY SO THAT YOU WILL NOT INVITE FURTHER REGULATION OF ALL INDUSTRIES. I ASK FOR YOUR HELP IN STEMMING THE FLOW OF BUSINESSMEN WHO COME TO WASHINGTON IN SEARCH OF SUBSIDIES AND PROTECTION FROM ECONOMIC COMPETITION -- A PRACTICE THAT HAS ONLY AIDED AND ABETTED THE MOVEMENT TO SHACKLE OUR FREE ENTERPRISE SYSTEM. AND I URGE YOUR SUPPORT FOR POLICIES THAT WILL KEEP AMERICA STRONG AND RESOLUTE IN THE WORLD.

ALL OF THESE THINGS I ASK NOT JUST FOR OUR SAKE, BUT FOR OUR CHILDREN AND OUR CHILDREN'S CHILDREN BECAUSE, IN THE FINAL ANALYSIS, THEY ARE THE ONES WHO MUST LIVE WITH THE RESULTS OF OUR DECISIONS. EACH OF US IS A TRUSTEE OF THEIR FUTURE.

THANK YOU.

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FOR IMMEDIATE RELEASE

May 23, 1975
Contact: C. Johnston
964-5266

LABOR LEADER BUYS NEW-DESIGN BOND

AFL-CIO President George Meany today purchased a $100 Bicentennial-design U.S. Savings Bond from United States Treasurer Francine I. Neff at AFL-CIO Headquarters in Washington. The newly-designed bond went on sale this month.

At the ceremony Mrs. Neff thanked the labor leader for organized labor's long support of the Savings Bond Program, and said that "bonds are good for America and good for individual Americans. More than one out of every three American families use this modern way to 'put something in the sock.'"

Mr. Meany commented that labor views the Bond Program as a "practical form of patriotism that provides workers with the opportunity to save regularly and automatically through the Payroll Savings Plan. Labor has actively supported the Bond Program since it began 34 years ago, and we are just as enthusiastic about it today."

Mrs. Neff, who is also the National Director of the United States Savings Bonds Program, pointed out that Bicentennial-design bonds have the same terms and conditions as previous bonds, but are printed in red, white and blue, and have new designs on their face. The Minute Man replaces the eagle and the old Presidential portraits are replaced by the following historical symbols on different denominations:
$25 - Independence Hall; $50 - Liberty Bell; $75 - Spirit of '76; $100 - Valley Forge; $200 - Crossing the Delaware; $500 - Washington; $1,000 - Declaration of Independence.

President Gerald E. Ford purchased the first Bicentennial-design Savings Bond earlier this month. The new bonds will be available nationwide through December, 1976.

United States Savings Bonds are 34 years old this month. Series E Bonds currently earn six percent interest, compounded semi-annually, when held to 5 year maturity. There are approximately $65 billion worth of Series E Bonds outstanding, and sales so far this year are the highest in 30 years.

-- USSB --

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

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Address by The Honorable David R. Macdonald
Assistant Secretary of the Treasury
(Enforcement, Operations, and Tariff Affairs)
Before the
Federal Criminal Investigators
Association
Miami Beach, Florida
May 24, 1975

"Why Is An Enforcement Officer
Like A Bank President"

It is with some diffidence that I treat the subject of law enforcement before a distinguished law enforcement audience like the Federal Criminal Investigators Association. As you may know, in my other life, before I took on the mantle of Assistant Secretary in charge of the enforcement operations of the Treasury Department, I was a corporate lawyer serving, among others, banking clients. This background did not prepare me for the task of guiding the thrust of Treasury Department enforcement operations. I count on input from many people, including my Deputy for Enforcement, Jim Featherstone, for that task. It did, however, help to prepare me for the task of interpreting the criminal enforcement process and procedures to a critical public. This is a task, in my opinion, that can most effectively be undertaken by a "civilian" -- one who has not been weaned on enforcement work. In the meantime, the duties of the enforcement community sometimes need interpretation to that community itself -- thus, this brief address.

I have chosen the title, "Why Is An Enforcement Officer Like A Bank President?", because I thought it would highlight the most basic concept forming the philosophical underpinning for police and investigative work, as we in the Free World know that work.

My nine year old son, who likes riddles, might suggest that the similarity between bank presidents and law enforcement officers results from the fact that the former are interested in the public's savings while the latter are here to save the public interest.

The analogy, however, runs deeper. The very basis of government has, at different times and at separate places, been attributed to two competing concepts. One of these concepts, as we learn at an early age in this country, is that government is based upon the consent of the governed -- that it is a compact voluntarily entered into by the people concerned, with a concommitant right to free expression of any idea which might result in the amendment or even the dissolution of that compact.

The question early arose in our history, since it was agreement of the governed that conveyed the authority of the governors to rule, whether an individual or group of individuals could, upon notice of withdrawal of their consent, without more, remove themselves from the compact.

Periodically thereafter, an analogous theory was put forth that a state government, acting through its officers, could negate the consent of its people to Federal authority by interposing state authority between the Federal compact and the citizens. This doctrine of "interposition" was mentioned in the Federalist Papers; embodied in the Kentucky and Virginia resolutions of 1798; contemplated by New England in the mystery-shrouded Hartford Convention of 1814, called to protest the policies of James Madison during the War of 1812; acted upon by South Carolina in the nullification dispute of 1832-33; and finally was put into effect by eleven Southern States who claimed the right to withdraw from the Federal compact in 1860 and 1861. It took the Civil War, of course, to defeat this proposition that the consent of the governed to the agreement framed in our Constitution could be withdrawn by individual or state action, without more.

This leads to the second of the two competing principles of government. That principle is that a degree of coercion is necessarily built into every form of effective government. Although some people cannot seem to face up to it, no government is self-operative. No compact between government and people, and, therefore, no nation, can survive without some degree of coercion built into its system, to enforce its powers against those who would either withdraw from the original compact or break the laws which have been enacted pursuant to the compact.

How then can the first principle of government by the consent of the governed by rationalized with the concept that there is a necessity to maintain that degree of state-authorized coercion which is necessary to suppress crime, to assure obedience to the law, and to combat terrorism, which in and of itself is a coercive threat by groups of individuals who wish to assume control of society by means not allowable and not contemplated by the compact upon which our government is based: This is the challenge that the enforcement officer, whether uniformed or investigative, faces in concrete form on the streets of our cities and towns every day. In particular, it is the investigator's skills

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which enable both the uniformed police and the prosecutors, together, to implement the coercion necessary while protecting those freedoms guaranteed by the compact.

The president of a bank sits on, rules over and manages a pile of assets which do not belong to him. These assets have been deposited with him by others, in the trust and belief that he will husband and attempt to increase them for the benefit of those depositors. As he invests and deals with these assets, he performs one of the most delicate and elevated tasks devolving on anyone in our society -- that of taking some risk to make the assets grow while protecting them from losses which could result from excessive risk. He is a trustee charged with preserving and enhancing the asset portfolio of his customers.

In exactly the same sense, the law enforcement officer undertakes to assure that those liberties to which individuals are entitled, so essential to the implementation of our form of government and in recent years so specifically spelled out by our Supreme Court, are balanced against that degree of force or coercion necessary to assure the safety of our citizens and the functioning of our government.

The bank president is the trustee of our assets; the law enforcement officer is the trustee of our liberties. His trust is to provide that degree of enforcement, which does not, by its excess, result in totalitarianism, and yet does not, by its absence, result in anarchy. Both trusts are charged, as Justice Cardozo noted, with "the punctilio of an honor the most sensitive." One important difference between the bank president and the law enforcement officer is that, in the course of his duties, the law enforcement officer may risk his life. He deals, on the one hand, with people who have no honor while, on the other, he deals with citizens who are most sensitive to their own rights and his corresponding obligations.

Today, we find ourselves in a period when the enforcement community is under attack in the press, in Congress and sometimes from within the enforcement community itself. It is my job and it is your job to analyze dispassionately and impartially the grounds for each criticism and to attempt to remedy defects where defects exist. My judgment is, however, that their past successes in articulating shortcomings in the enforcement process have created an uncritical appetite on the part of some media representatives for sensationalism at the expense of accuracy. There is insufficient recognition by these persons that a controlled amount of coercion exercised against those who would break the basic precepts and laws making up the compact of government is necessary to maintain the domestic tranquility in a truly consensual society such as ours. I think it important, therefore, to take the time to thank you for continuing to exercise your trust in the face of these attacks. In a very real sense, the well being of our society remains in your hands. Thank you.

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

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May 27, 1975

MEMORANDUM FOR CORRESPONDENTS:

Enclosed for your information is a summary of the laws and regulations applicable to foreign investment in the United States.

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WS-320

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

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The Department of the Treasury has an important responsibility with respect to economic relations with the other nations of the world. In this regard, we have taken a keen interest in insuring that the United States continues to provide an open climate for investment from abroad. A fundamental aspect of such an effort must be a candid and thorough understanding of the laws and regulations applicable to investment in this country. The accompanying memorandum, which has been prepared by the Treasury Department, is designed to serve that objective. Part I of the summary details specific provisions of Federal law which restrict participation by aliens, foreign corporations, foreign governments and foreign-controlled enterprises in United States economic activity. Part II of the summary covers laws of general applicability such as the antitrust laws, Federal and state securities laws, and the tax laws.

With a few exceptions to assure national security and to protect vital national interests, the United States does not impose special restrictions on foreign investment in this country. However, because some of the most relevant legal provisions are designed primarily to regulate our domestic business community, foreign investors may be unfamiliar with our procedures and may therefore find compliance to be complex. Accordingly, I strongly urge that any investor obtain the advice of competent legal counsel in this country. Such a precautionary step will do much to prevent confusion and misunderstandings at a later time.

Again I wish to reiterate our sincere interest in maintaining a continuing volume of investment flows to this country through preservation of a free market. Such flows are good for our domestic economy, good for the investors and in the interest of increased worldwide economic cooperation. The facilities of the Treasury Department will be available to anyone who desires further explanation as to our laws and our policies.

Gerald L. Parsky
Assistant Secretary

May 1975.

SUMMARY OF FEDERAL LAWS BEARING ON FOREIGN INVESTMENT IN THE UNITED STATES

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II

ENERGY AND NATURAL RESOURCES

1. Atomic Energy. The Atomic Energy Act prohibits the issuance of licenses for the operation of atomic energy utilization or production facilities to aliens, foreign governments, foreign corporations, or corporations owned, controlled, or dominated by such foreign interests. In defining foreign ownership or control, there is no threshold test of percentage ownership or other rule of thumb. Determinations are made on a case by case basis. 42 U.S.C. §§ 2133, 2134.

2. Pipelines and Mineral Leasing on Federal Lands. Under the Mineral Leasing Act of 1920, aliens or foreign-controlled enterprises may not acquire rights of way for oil pipelines, or acquire any interest therein, or acquire leases or interests therein for mining coal, oil, or certain other minerals, on federal lands other than the outer continental shelf. However, a foreign-controlled corporation may hold such an interest if its home country grants reciprocal rights to United States corporations. 30 U.S.C. §§ 22, 24, 71, 181, 185, 352, 42 CFR § 3102.1-1; see generally 43 CFR Chapter II (Bureau of Land Management). However, a foreign-controlled corporation may hold and exploit a lease on the outer continental shelf under the Outer Continental Shelf Act and Department of Interior regulations (43 U.S.C. § 331-43; 43 CFR 3300.1). Foreign ownership up to 100% is permitted.

Under the Geothermal Steam Act, (30 U.S.C. §§1001-1025), leases for the development of geothermal steam and associated resources may be issued only to United States citizens and corporations organized under the laws of the United States or of any State. 30 U.S.C. § 1015. However, a domestically incorporated enterprise may be foreign owned or controlled.

3. Land. Federally-owned land may be transferred or leased only to (i) U.S. citizens or persons having declared their intention to become U.S. citizens; (ii) partnerships or associations, each of the members of which is a U.S. citizen; and (iii) corporations organized within the United States and permitted to do business in the state in which the land is located, and States, municipalities or other political subdivisions. 43 U.S.C. § 682c. There is no limit upon the percentage of foreign ownership that a domestically-incorporated firm may have, provided that the country whose citizens own shares of the U.S. firm grants reciprocal privileges to U.S. citizens. Where there is no such reciprocity, an American corporation purchasing public land must be majority owned by United States citizens. In addition, there are restrictions on alien land ownership in territories of the United States; however, these have little contemporary relevance to foreign investment in view of the small portion of United States land remaining in a territorial status. 48 U.S.C. §§ 1501-1508.

4. Fishing. Foreign vessels may not fish in the territorial waters or fishing zone of the United States or land fish caught on the high seas in the United States. 16 U.S.C. §§ 1081 et. seq., 1091 et. seq. The restrictions apply to foreign-controlled fishing companies unless certain management restrictions are met. (The president or chief executive officer of a domestic corporation must be a United States citizen; foreign citizens serving as directors cannot be more than a minority of the number necessary to constitute a quorum.)

III

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TRANSPORTATION AND TRADE

1. Aviation. A foreign-controlled enterprise (e.g. a foreign air carrier) may not acquire control of a company engaged in any phase of aeronautics unless approval is granted by the Civil Aeronautics Board. Under the Federal Aviation Act, ownership of 10 percent or more of the voting securities gives rise tc presumption of control. In addition, aggregate foreign equity holdings are limited to 25 percent. 49 U.S.C. §§ 1301 (1) and (13 ; 1378(f).

A foreign-controlled enterprise may not be issued a permit for intra-United States air commerce or navigation (cabotage) (49 U.S.C. §§ 1371, 1401(b), 1508). Domestic air transit (with limited exceptions based on reciprocity by the carrier's home country) is limited to domestically registered aircraft. Eligibility to register aircraft in the United States is limited to

1. individual United States citizens;

2. partnerships in which all partners are United States citizens;

3. corporations formed in the United States in which the president and at least two-thirds of the directors and other managing officers are United States citizens and at least 75 percent of the voting stock is owned by United States citizens. 49 U.S.C. §§ 1371 and 1401.

2. Shipping.

a. Coastwise Shipping. Under the Jones Act of 1920, coastal and fresh water shipping, including towage, of freight or passengers between points in the United States or its territories must be done in vessels which were built and are registered in the United States and which are owned by United States citizens. As in the case of aviation, for a corporation to register a ship in the United States, the corporation's principal officer must be a United States citizen and 75 percent of the stock must be owned by United States citizens. 46 U.S.C. §§ 802, 883, 888. Certain exceptions are permitted to this general rule, for example, shipping incidental to the principal business of a foreign-controlled United States manufacturing or mining company. 46 U.S.C. § 883-1. There is also an exception for intercoastal transportation of empty items such as cargo vans, containers, tanks, etc. where the country of the vessel's registery grants reciprocal privileges to United States vessels. 46 U.S.C. § 883.

b. Transfer of Shipping Facilities during War or National Emergency. During time of war or national emergency proclaimed by the President, a foreign-controlled enterprise may not acquire or charter, without the approval of the Secretary of Commerce, United States flag vessels, vessels owned by a United States citizen, or shipyard facilities, or acquire a controlling interest in corporations owning such vessels or facilities. 46 U.S.C. § 835.

c. Salvage. To engage in dredging or salvage operations in United States waters, a foreign-controlled enterprise must satisfy certain management restrictions. To register a vessel to engage in these activities, the President or chief executive officer of a domestic corporation, and the chairman of its board, must be United States citizens, and foreign citizens serving as directors cannot be more than a minority of the number necessary to constitute a quorum. 46 U.S.C. §§ 316(d), 11.

d. Transportation of Government Financed Commodities. A foreign-controlled enterprise must meet certain management restrictions (see c. above) to transport certain commodities procured or financed for export by the United States Government or an instrumentality thereof. 15 U.S.C. § 616a; 46 U.S.C. § 1241.

e. Officers of Vessels. Foreign citizens may not act as officers of or serve in certain other positions on certain vessels. 46 U.S.C. § 221.

3. Customs House Brokers. For a foreign-controlled firm to obtain a license to operate as a customs house broker, at least two of the officers must be United States citizens. 19 U.S.C. § 1641.

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IV

GOVERNMENT PROCUREMENT AND BENEFITS

1. Procurement. At least two federal statutes require that, with certain exceptions, government agencies purchase only items produced in the United States. However, neither statute restricts procurement from a foreign-controlled U.S. corporation which is producing domestically. The Buy American Act 41 U.S.C. § 10a. - d. requires that government agencies acquire for public use only materials produced or manufactured in the United States. These provisions do not apply where the agency head determines that they would be "inconsistent with the public interest", or that the cost of the domestic articles is unreasonable (generally 6-12 percent above the foreign bid price, 41 CFR 1-6.104-4); nor do they apply to items purchased for use outside the United States, or to items not produced in the United States "in sufficient and reasonably available commercial quantities and of a satisfactory quality."

A second restriction on federal procurement is the "Barry Amendment" to the Defense Appropriations Act (Section 724) (86 Stat. 1200), which restricts the Department of Defense from procuring articles of food, clothing, cotton, silk, synthetic fabric or specialty metals which are not produced in the United States.

2. Subsidies, Insurance, and Other Government Benefits. Foreign-controlled enterprises operating in the United States, whether in branch or subsidiary form, may not:

(a) obtain special government loans for the financing or refinancing of the cost of purchasing, constructing or operating commercial fishing vessels or gear. 16 U.S.C. § 742(c)(7).

(b) sell obsolete vessels to the Secretary of Commerce in exchange for credit towards new vessels. 46 U.S.C. § 1160.

(c) receive a preferred ship mortgage. 46 U.S.C. § 922.

(d) obtain construction-differential or operating-differential subsidies for vessel construction or operation. 46 U.S.C. §§ 1151 et seq., 1171 et seq., 802.

(e) purchase vessels converted by the government for commercial use or surplus war-built vessels at a special statutory sales price. 50 U.S.C. App. §§ 1737, 1745.

(f) obtain certain types of vessel insurance unless the management restrictions applicable to companies operating vessels in salvage are satisfied. 46 U.S.C. §§ 1281 et. seq.

(g) obtain war-risk insurance for aircraft. 49 U.S.C. §§ 1531, 1533.

(h) purchase Overseas Private Investment Corporation insurance or guarantees. However, foreign corporations, partnerships or other associations, wholly owned by one or more United States citizens, corporations, partnerships, or other associations are eligible (Up to 5 percent of the shares may be held by foreigners if required by law without affecting "wholly owned" status.) 22 U.S.C. § 2198(c).

(i) obtain special government emergency loans for agricultural purposes after a natural disaster (7 U.S.C. § 1961) or government loans to individual farmers or ranchers to purchase and operate family farms. 7 U.S.C. §§ 1922, 1941.

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V

BANKING

1. National Banks. Under the National Bank Act, as amended, every director of a national bank must, during his whole term of service, be a citizen of the United States. 12 U.S.C. § 72. Although there are no restrictions on the degree of foreign ownership of national banks, such ownership is inhibited by the citizenship requirement for directors.

2. Edge Act Corporations. An Edge Act Corporation may be organized for the purpose of engaging in international or foreign banking or other international or foreign financial operations. A majority of the shares of the capital stock of an Edge Act Corporation must at all times be held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States. 12 U.S.C. § 619. Moreover all of the directors must be United States citizens.

3. Bank Holding Company Act. At present, the Bank Holding Company Act contains no specific restrictions on foreign banks. However, under the general provisions of the Act, which apply equally to domestic banks, any foreign company establishing a United States banking subsidiary or acquiring control of an existing domestic bank must be approved by the Board of Governors of the Federal Reserve Board. (Acquisition of a 25 percent interest creates a conclusive presumption of control. In addition, lesser ownership amounts -- down to 5 percent -- are likely to be found to constitute control.) There have been a number of recently established foreign subsidiaries approved by the Board under the Act (e.g., Sanwa Bank of California, Mitsubishi Bank of California, Banco de Roma of Chicago).

4. Federal Reserve Membership and FDIC Coverage. A foreign banking operation in the United States may take the form of a branch, agency, subsidiary, or representative office. Of these, only subsidiaries incorporated under State or Federal law may become members of the Federal Reserve System and/or the Federal Deposit Insurance Corporation 12 U.S.C. §§ 321, 1814-16. Thus, at present, neither branches nor agencies of foreign banks are members of or subject to regulation by the Federal Reserve.

NOTE: Pending Foreign Bank Legislation (the "Foreign Bank Act of 1975"). S. 958, the "Foreign Bank Act of 1975" has been introduced in the 94th Congress at the request of the Federal Reserve Board. The bill would place foreign bank operations in the United States under effective Federal control. It would bring United States branches and agencies of foreign banks within the purview of the Bank Holding Company Act. That Act's restrictions on multistate branching and nonbank activities would then apply to such foreign bank operations. All subsidiaries, branches, and agencies of foreign banks having worldwide assets of $500 million or more would be required to become members of the Federal Reserve System. In addition, all foreign banks covered by the bill would be required to carry coverage of the Federal Deposit Insurance Corporation.

The bill would require a foreign bank to obtain a Federal banking license from the Comptroller of the Currency as a precondition of obtaining a state charter. Licenses would be issued only with the approval of the Secretary of the Treasury after consultation with the Secretary of State and the Federal Reserve Board. The bill also would provide for chartering by the Comptroller of the Currency of a branch of a foreign bank as a "Federal branch" permitted to conduct a banking business on the same basis as a national bank in its state of operation.

The bill would make it possible for foreign banks to establish national banks and Edge Corporations. It would amend the National Bank Act to allow up to half of the directors of a national bank to be noncitizens. With respect to Edge Corporations, the bill would permit the Federal Reserve Board to waive the requirements of majority ownership by United States citizens and the citizenship requirement applicable to directors.

The Administration has not taken a position on many of the specific provisions of the legislation. It is likely that in the course of the legislative process, substantive changes in the proposal will be introduced. Neither the timing nor the substance of Congressional action can be predicted at this time.

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DEFENSE

1. Industrial Security Program. The Executive Orders and Department of Defense regulations which constitute the Industrial Security Program (Executive Orders 10450, 10865, and 11652: DoD 5220.22-R, Section II, part 2) make it very difficult for foreign-controlled corporations, except possibly subsidiaries of Canadian or U.K. parents, to obtain the security clearances necessary to carry out a classified contract. Both a "facility" clearance and individual clearances for key management personnel and others who may have access to classified information are required.

Generally, facilities which are "under foreign ownership, control or influence" are ineligible for facility clearances, and foreign nationals are ineligible for individual clearances. There are certain limited exceptions for facilities owned or controlled by foreigners, and a foreign-controlled U.S. subsidiary might obtain clearances by forming a "voting trust", in which it gave up management rights but retained rights to profits.

2. Priority Performance Statutes. While not aimed specifically at foreign investors, the priority performance statutes bear on the operation of a United States business by foreign investors.

a. Defense Production Act. Under Title I of the Defense Production Act of 1950, the President possesses the authority to require that performance under defense contracts take priority over other contracts. The Act also authorizes the President to require acceptance and performance of such contracts by any person he finds capable in preference to other orders or contracts and further authorizes him to allocate materials and facilities in such manner and under such conditions as he deems necessary to promote the national defense. 50 U.S.C. App. § 2071. Any willful failure to perform any act required by the Act is punishable by fine of $10,000 or one year in prison. 50 U.S.C. App. § 2073.

b. Selective Service Act. Under Section 18 of the Selective Service Act (50 U.S.C. App. § 468), the President, whenever he determines that it is in the interest of national security, may place an order for articles or materials, the procurement of which has been authorized by Congress exclusively for the use of the armed forces of the United States, with any person capable of producing them. Under this authority, the President may assign such contracts as "rated orders" which take priority over any unrated order. Procurements for military assistance programs are included.

GENERAL LAWS AFFECTING THE CONDUCT OF BUSINESS IN THE UNITED STATES BY FOREIGN INVESTORS*

I. ANTITRUST LEGISLATION

The antitrust laws are applied equally to both U.S. and foreign corporations in order to preserve competitive market structures and to forbid specific anti-competitive practices. By maintaining a competitive market, the antitrust laws do not discourage foreign investment in the U.S. but, rather, make the U.S. more attractive for the international investor. For example acquisition of a U.S. company may be the easiest form of entry into the U.S., but the antitrust laws may prevent the particular acquisition by either domestic or foreign investors because of its effect on actual or potential competition. Such restrictions would, in such a case, either prevent foreign investment or direct it to *de novo* entry.

Section 7 of the Clayton Act is the principal statute which provides safeguards against further industrial concentration in the United States. Section 7 prohibits any merger or acquisition which may tend substantially to lessen competition or to create a monopoly in any line of commerce in any section of the United States under this statute. Foreign direct investment is subject to antitrust scrutiny when such investment involves a purchase, merger, a joint venture with an existing American firm, or with another foreign firm to operate an enterprise.

The antitrust laws are applicable in the following situations: the merger of actual competitors in the United States market; the merger of potential competitors in the United States market; joint ventures between actual competitors in the United States market; and joint ventures between potential competitors in the United States market. Relevant competition includes not only competition between firms where production facilities are located within the United States but also competition between such firms and firms where production facilities are located abroad, that is to say exporters to the United States. A merger between an important exporter to the United States and a significant United States producer will be treated much in the same way as would the merger of two United States producers with corresponding market shares.

*Excerpted and adapted from a summary prepared by the Council on International Economic Policy Interagency Working Group on Foreign Investment in the United States. *Hearings on Foreign Investment in the United States before the Subcom. on Foreign Economic Policy* of the *House Comm. on Foreign Affairs*, 93d Cong., 2d Sess. 231 (1974).

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In the context of foreign commerce, the importance of the concept of potential competition is somewhat greater than in the purely domestic context. Factors such as tariff rates, governmental import and export barriers and exchange rates may have an effect in determining whether or not a particular foreign firm can compete in the United States market.

In proposed mergers between United States companies and foreign firms, the factual determination of whether the two companies are substantial, actual or potential competitors in the United States market, depends on various criteria -- such as whether there is objective evidence that the foreign company would have entered the United States market by de novo investment in new facilities or acquiring another firm or partner; how soon such entry might reasonably be expected; whether the market position of a large American company may be further entrenched by the acquisition and the like.

In addition to mergers involving actual or potential horizontal competitors, mergers involving firms in a buyer-seller relationship, so-called vertical acquisitions, may raise antitrust objections. An example is purchase of a United States manufacturer by a foreign supplier of raw materials. The possible hazard to competition of such an arrangement is that other domestic companies may lose a source of raw materials. Section 7 also applies to such mergers.

The basic factors affecting the legality of joint ventures are the same as those affecting the legality of mergers. Joint ventures with domestic firms may sometimes provide the only means for foreign firms to enter markets in the United States. However, joint ventures can have an adverse effect on American domestic markets. For example, joint ventures in which the foreign firm is removed as a potential competitor present substantial antitrust objections. 1/

A recent case in the foreign direct investment and joint venture area will show how the above-described policy is put into effect. In the 1969 BP-Sohio merger case 2/

1/ See, e.g., United States v. Penn-Olin Chemical, 378 U.S. 158 (1964), a case involving domestic firms only, but which describes the anticompetitive effects of such arrangements.

2/ United States v. British Petroleum Co., Civ. No. 69-954 (N.D. Ohio 1969) settled by consent decree, 1970 Trade Cases Par. 72, 988.

BP, already a major petroleum marketer on the East Coast, acquired Sohio which had about 30 percent of the Ohio market. The Department of Justice objected to the merger on the grounds that BP was a potential entrant into Ohio, Sohio's primary market and the merger would foreclose an independent entry into that market. The case was settled by a consent decree under which the merger was allowed to proceed provided that Sohio divested itself, by sale or exchange for stations in other parts of the country, of stations handling a total of 400 million gallons of fuel per year in the Ohio market. This case indicates the Department of Justice will challenge acquisition when a major foreign firm, an actual or potential competitor in the United States market, merges or enters into a joint venture with a major United States firm in a concentrated United States market and the effect is to foreclose independent entry or expansion of the foreign firm.

With respect to the second objective of the antitrust laws, prohibiting anticompetitive practices, foreign firms which invest in the U.S. (whether de novo investment in new facilities or purchase of existing facilities from other firms) are also subject to U.S. standards both concerning monopolizing under Section 2 of the Sherman Act and concerning price fixing, group boycotts, market allocation and the like under Section 1 of the Act.

Should a foreign firm alone control a sufficiently high percentage of the U.S. market, or should a foreign firm engage in conduct with its competitors which amounts to express collusion on prices, division of markets, or group boycotts, then the Sherman Act provisions would be applied with equal impact on the foreign and domestically owned companies involved.

Foreign firms which contemplate an investment in the United States by purchase or merger of an existing firm may wish to consider using the Business Review Procedure of the Antitrust Division (28 C.F.R. § 50.6) whereby the Division will state its present enforcement intentions as to proposed business conduct, such as a merger or purchase of an American firm. Under this procedure, businessmen may inform the Division of proposed domestic or foreign activities, alone or jointly with other firms and receive a statement of the Division's enforcement intentions with respect to their specific proposal. Firms may, of course, if they wish, make any purchase agreement or major outflow of funds dependent on receiving information via the Business Review Procedure from the Division on its present enforcement intentions, based upon the material submitted by the firms seeking review.

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II. SECURITIES LAWS AND REGULATIONS

Our securities laws and practices are generally more rigorous than those in many foreign countries and foreigners in certain cases may consider our system burdensome. U.S. securities laws and practices apply equally to U.S. and foreign investors or issuers. However, in applying the securities laws the SEC has tended to accomodate foreign investors through exemptions from and modification of certain provisions of the laws. Our high standards of disclosure and fair practice may be important factors in attracting foreign capital.

1. Federal Securities Laws. If a foreign direct investment project is partly dependent on U.S. sources of financing, the foreign issuer-investor may be subject to the provisions of the U.S. securities laws. Certain types of transactions (commercial bank loans and private placements) may be exempt from the laws; however, if the investor wishes to raise funds from an offering of securities to the public, the issue in most cases must be registered under the Securities Act of 1933. Upon completion of a public offering, the issuer would be subject to the reporting requirements of the Securities Exchange Act of 1934.

In addition, Section 13(d) of the Securities Exchange Act of 1934 requires an investor acquiring more than 5% of the beneficial ownership of a class of securities registered under Section 12 (which applies to most public companies) to file with the Securities and Exchange Commission the name and occupation of the purchaser, the source of funds employed, the purpose of the transaction and other pertinent data. Section 14 requires an investor intending to make a tender offer or take-over bid for more than 5% of the shares of a company to file the information called for on Schedule 13D with the SEC prior to commencing the tender offer.

Section 16 of the 1934 Act calls for investors owning beneficially more than 10% of a public company and "insiders" (e.g. directors or officers) to file with the SEC a statement of the amount of securities owned and to file an updated statement each time the amount of shares owned changes. Furthermore, with a very limited exception, 10% owners and insiders of a company are liable to turn over to the company any profit realized on certain purchases and sales of the company's securities which take place within a six month period.

The U.S. securities laws often call for more disclosure than foreigners are accustomed to providing. Furthermore, the form and content of the financial statements, as well as the requirement for independent audits, can present foreign issuers with difficult problems. The Commisssion has proved willing in the past to accomodate foreign issuers as to the nature of information disclosed and to permit reconciliation, rather than reconstruction, of accounting data. The U.S. laws apply even if a substantial portion of the offering is sold to foreigners.

2. Membership on the New York and American Stock Exchanges. The rules of the New York and American Stock Exchanges do not permit membership by foreigners. Since the SEC has not disapproved of these rules, they are, in a sense, an extension of the federal securities laws. Foreigners may establish a U.S. based brokerage or investment banking business, which can become a member of the National Association of Securities Dealers, Inc. (NASD) and participate in underwritings and in brokerage transactions off the New York and American exchanges. However, such a dealer generally must work through a member should it seek to execute brokerage transactions in securities listed on either exchange and pay a commission to the member firm.

3. State and Local Securities Laws. Although registration laws vary from state to state, a model act has been adopted by many states which presents few problems to establish companies. Furthermore, offerings by companies with securities listed on major national securities exchanges in the U.S. are generally exempted from qualification under most state laws. However, this exemption does not eliminate the issuer's potential liability for any violation of the laws of states in which the offering is made.

Many state securities laws are disclosure statutes similar to the Securities Act of 1933. However, a number of states attempt to evaluate securities and prohibit offerings which are considered too speculative or the terms of which are deemed "unfair". Some of these laws vest considerable discretion in the state administration as to whether an issue may be registered, offered, and sold.

Registration is only required in the states in which the securities are offered. Small offerings can usually be made in a relatively small number of states, allowing the issuer to avoid the more burdensome problems of having the issue approved in many states or throughout the country.

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Broker-dealers and their individual registered representatives must be registered in the states in which they wish to conduct business, as well as with the NASD. There are no specific restrictions on foreign controlled firms at the stat level so long as they comply with the laws applicable to U.S. owned broker-dealers.

4. Institutional Disclosure. Enactment is imminent for legislation to require large institutional investors to report holdings and transactions above a certain size. Foreign institutions would presumably be covered by this legislation, which would add to their record keeping and reporting obligations.

III. TAXATION.

1. Summary of Present Tax Treatment. U.S. taxation of foreign individuals and foreign legal entities ("corporations") on their U.S. direct or portfolio investment depends upon the relationship of the foreign taxpayer to the U.S. and the geographic source and nature of his income.

2. Source of Income. The Internal Revenue Code (IRC) devides income into two classes: U.S. source income and foreign source income. If income is partially from within the U.S. and partially from without, it must be allocated between the two sources. Generally, U.S. source income includes: (1) income from personal services performed in the U.S.; (2) interest paid by a U.S. citizen, resident, corporation, state or local public entity and a pro rata portion of interest paid by certain foreign corporations which derive a substantial portion of their gross income from U.S. sources; and (3) dividends paid by U.S. corporations and a pro rata portion of dividends paid by those foreign corporations which have substantial U.S. source business income.

3. Nature of Income. Treatment of income also varies according to its nature:

1. Passive investment income, e.g., dividends, interest, rents, and royalties, is subject to a withholding tax at source of 30% (or lower treaty rate) on gross income; and

2. Business income "effectively connected with the conduct of a trade or business in the U.S." (including income described in paragraph 1) is taxed at progressive rates on taxable income. The "effectively connected" concept was added to the Code in 1966 to segregate business income taxed at progressive rates from investment income taxed at the 30% withholding rate. Among the factors considered are whether the income is derived from assets used in the trade or business, whether the activities

of the trade or business were a material factor in the realization of the income and whether the asset or the income was financially accounted for through the trade or business.

4. Summary of Current Treatment. Putting these variable together, U.S. income taxation of foreign individuals and corporations can be roughly summarized as follows:

(1) Resident alien individuals are taxed at progressive rates both on their U.S. and foreign source taxable income, just as are U.S. citizens.

(2) Non-resident alien individuals are taxed at 30% (or lower treaty rate) on gross U.S. source investment income and taxed at progressive reates on U.S. and foreign source taxable income effectively connected with a trade or business conducted in the U.S. In addition, if a non-resident alien is physically present in the U.S. for more than 183 days during a taxable period, his net capital gains from U.S. sources not "effectively connected" are taxed at 30% (or lower treaty rate). Such individuals are not taxed on foreign source investment income, nor on foreign source income not effectively connected with the conduct of a trade or business in the U.S.

(3) Foreign corporations engaged in trade or business in the U.S. are taxed in the same manner as U.S. corporations on their U.S. source income that is effectively connected with such trade or business, as well as upon certain categories of foreign source income effectively connected with the U.S. trade or business. Non-effectively connected U.S. investment income is taxed as described in para. 4.

(4) Foreign corporations not engaged in trade or business in the U.S. are taxed at 30% (or lower treaty rate) on gross U.S. source investment income. Since the corporation has no U.S. trade or business, by definition it will not have any U.S. source business income or effectively connected foreign source income. Such corporations are not taxed by the U.S. on their foreign source investment income.

(5) Gift Tax. U.S. gift tax is paid by resident aliens in the same manner as U.S. citizens. Gifts of intangible property by non-resident aliens are exempt from the tax. Corporations are not subject to the gift tax provisions.

(6) Foreign Investors Tax Act of 1966. The present status of U.S. treatment of foreign investors is largely the product of past attempts to remove restraints on such investment. The Revenue Act of 1936 liberalized U.S. taxation of

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capital gains realized in the U.S. by certain foreign individuals and corporations. In 1963 President Kennedy appointed a task force to examine means of encouraging increased foreign investment in the U.S. and increased foreign financing by U.S. corporations operating abroad. A report ("Fowler Report") was issued by this task force in 1964 containing thirty nine recommendations on how to accomplish those objectives.

Legislation incorporating these recommendations, introduced in March, 1965, underwent extensive modification by the Ways and Means Committee in which the focus changed from encouraging foreign investment to providing equitable treatment of such investment. The resulting "Foreign Investors Tax Act of 1966" (FITA) enacted all the recommendations contained in the Fowler Report except complete exemption from U.S. estate tax of all intangible personal property of non-resident alien decedents located in the U.S. Instead, FITA substantially reduced the tax rates applicable to foreign decedents and increased the available exemption from $2,000 to $30,000. In addition, FITA extended U.S. taxation for the first time to certain classes of foreign source income of non-resident aliens and foreign corporations if that income is effectively connected with the conduct of a trade or business in the U.S.

(7) Tax Treaties. In addition to legislation, treaties have a major impact on the tax treatment of foreign investment in the U.S. The tendency of recent treaties negotiated by the U.S. has been to incorporate the statutory changes effected by FITA and to provide for a mutual reduction of withholding rates.

(8) Estate Taxes. Estates of resident aliens are taxed on all property wherever located, just as are estates of U.S. citizens. Estates of non-resident alien individuals are taxed only on property deemed situated in the U.S. Stock and debt obligations of a U.S. individual, corporation or state are deemed situated in the U.S. regardless of the physical location of the certificate or the note or the non-resident alien at death. After January 1, 1977, deposits with U.S. banks or domestic branches for foreign banks will also be deemed situated in the U.S.

(9) Capital Gains. In general no capital gains tax is imposed on a foreign investor not engaged in a trade or business in the United States. However, if the foreign individual is physically present in the United States for more than 183 days during a taxable period he is liable for the tax.

(10) State Taxes. State taxes, including corporate income and franchise taxes, personal income taxes, excise taxes, and property taxes may influence the size, type and location of foreign investment. Since state tax rates are substantially less than federal rates, they probably do not constitute a major

overall deterrant. However, bilateral tax treaties do not reduce or eliminate these taxes.

State taxes have little effect on the portfolio investments of non-resident alien individuals or foreign corporations since such taxes usually would not apply to dividends or interest paid to those foreign investors or to any gains realized upon final disposition of the securities.

The situation confronting direct investors is more complicated. In addition to the tax rates themselves, investors must consider the basis on which a state premises its taxing jurisdiction and the manner in which it determines the amount of income subject to such jurisdiction.

IV. VISA REQUIREMENTS

1. Nonimmigrants. Any nonimmigrant alien in the United States may, unless precluded from doing so because of restrictions in the foreign exchange area or because of actions or policies of his government, invest in any lawful venture. However, he may not, in the absence of official permission granted by the Immigration and Naturalization Service, engage in gainful employment or remain beyond the period of time authorized by that Service.

Of the several nonimmigrant vias classifications, four authorize foreigners to work for remuneration here, pursuant to bilateral agreement on reciprocity for U.S. citizens. These are: treaty trader, treaty investor, temporary workers, and intra-company transferee. The first two mentioned classifications were designed specifically to provide for those aliens desirous of investing here, or to otherwise engage in substantial business ventures. The latter are relatively new, having been established by legislation in 1970. So long as aliens in any of these four classifications maintain status with approval of the Immigration and Naturalization Service, there is no prescribed limit on the total length of time they may remain in the United States.

There is one other nonimmigrant classification that is available to the foreign businessman who wishes to invest in the United States, and that is the temporary visitor for business. Foreign businessmen admitted in this classification may not engage in gainful employment, however, nor may they remain longer than six months in the absence of Immigration and Naturalization Service authorized extensions to stay.

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2. <u>Immigrants</u>. A foreign businessman who intends to reside in the United States for an indefinite period or permanently in connection with his investment and who cannot qualify for any of the non-immigrant classifications described must obtain an immigrant visa. In applying for an immigrant visa, he must meet the labor certification requirement of the Immigration and Naturalization Act by establishing that he "... is seeking to enter the United States for the purpose of engaging in a commercial or agricultural enterprise in which he has invested, or is actively in the process of investing, capital totalling at least $10,000, and establishes that he has had at least one year's experience or training qualifying him to engage in such enterprise;." Also, a labor certification will usually be granted by the Department of Labor on an intracompany transfer basis for key personnel who have been employed by the firm abroad for a continuous period of more than one year. Once this requirement has been met, the foreign businessman will then complete the normal procedural requirements and, if a visa number is available for his use, will receive an immigrant visa without delay.

There are limitations imposed by law on the number of immigrant visas which may be issued each year -- 170,000 to persons born in the Eastern Hemisphere; 120,000 to persons born in independent countries of the Western Hemisphere (North and South America). Because the demand for immigrant visas is variable, there may be a waiting period before an immigrant visa number will become available for a qualified applicant. A foreign businessman intending to immigrate to the United States in connection with his investment in this country must consult the nearest American Embassy or Consulate for precise details of the process of applying for, and obtaining, an immigrant visa and for information concerning the waiting period, if any, which he may face before a visa number can be made available for his use.

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

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FOR IMMEDIATE RELEASE

May 22, 1975

RESULTS OF AUCTION OF 17-MONTH TREASURY NOTES

The Treasury has accepted \$1.5 billion of the \$2.6 billion of tenders received from the public for the 17-month notes auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	6.38%
Highest yield	6.58%
Average yield	6.54%

The interest rate on the notes will be 6-1/2%. At the 6-1/2% rate, the above yields result in the following prices:

Low-yield price	100.158
High-yield price	99.895
Average-yield price	99.947

The \$1.5 billion of accepted tenders includes 88 % 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, \$0.1 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 RELEASE UPON DELIVERY

REMARKS BY THE HONORABLE GERALD L. PARSKY
ASSISTANT SECRETARY OF TREASURY
BEFORE THE
SOUTH CAROLINA MARITIME CELEBRATION
SHRINERS TEMPLE
CHARLESTON, SOUTH CAROLINA
FRIDAY, MAY 23, 1975, AT 8:30 P.M.

I am very pleased to have the opportunity to be here to discuss international trade issues with you at your Maritime Day Celebration. Since you are professionals in foreign trade, I won't preach to you about its benefits. However, I would like to offer you my views on the policies we have been pursuing in world trade and what our objectives are for the future.

It is clear to all of us that the world is undergoing basic changes today. Just turn on the radio and any news program will be filled with reports of job layoffs, potential oil and food shortages and worldwide inflation.

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Life in the United States of America has changed. 101 years ago today, The New York Times had a headline that said, "There's violence in the streets, we need more civil rights for minorities, two United States Senators are under investigation and the Bank of Belgium has raised its prime rate." What has changed? The problems are the same. Man hasn't been solving them.

What does it take? What do we require to meet the challenges of today? We need more people to recognize that change is not something to be afraid of -- rather, changing times can provide the environment for the development of long-lasting solutions to our problems. Theodore Roosevelt once said, "Woe to the country whose generation rises and shrinks from doing the rough work of the world." There's never been a rougher world to live in -- and yet never a world with so much opportunity.

In order to fulfill this opportunity, however, I believe we must begin to look beyond the present. Too many of us have become accustomed to living only for today. Domestically, we have allowed ourselves to overconsume and excessively spend. Internationally, we have too often lost sight of the need to accept a world of interdependence and build on it. These trends must be reversed. The time has come to put our economic policies -- both domestic and international -- back on a course that is sustainable over the long term.

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Significant Changes in Past Several Years. A natural result of this will be for international trade, which reflects general economic conditions, to prosper and grow.

Today, we are in a period of resource scarcity raising the spectre of slow economic growth, unacceptable unemployment rates and inward looking status quoism. In energy, raw materials, and food, recent shortages and restrictions on access to the world's resources have caused some to seek to change the entire international economic system. The objective of this call for a "new economic order" is a basic redistribution of the world's wealth. The means to achieve this goal will involve maximum interference with the marketplace. A system of prices set by international agreement and then linked to an index would result. We are certainly willing to review any proposal aimed at increasing economic growth and world prosperity; but we start with the premise that economic policies centered on the strengthening of the free enterprise system, are the best way to ensure economic progress and the preservation of human liberty.

As we strive to correct flaws in our system, we must seek to learn what our fathers never seemed to know -- that is, that different views and different ways of life need not be impediments to understanding or barriers to harmony in the world. We have failed to recognize the growing interdependence of the world and the need to build on that interdependence. I believe the answer lies in establishing a spirit of worldwide cooperation. To accomplish this objective, it will take leadership by example -- individual concern and leadership.

I would like to illustrate what I mean by offering you my views on policies we should be pursuing in the resource area.

Energy. First of all, with respect to energy, we are all aware of the effects which the quadrupling of petroleum prices by the oil producing countries have had upon economies and industries worldwide -- in terms of a sharp deterioration of the balance of payments of importing countries, increased costs of production for all major industries, a strong stimulus to inflation, problems of managing the oil producers' excess income, the potential of disruptive investment flows, and the heavy burden on the domestic private consumer.

Where does the answer lie? It lies with us and with the other consuming countries and with our ability to achieve harmony with the producing countries. However, such harmony won't happen without leadership -- we in the United States must show the way, for we are now the largest importer of oil. If we don't lead constructively, no one will.

Our efforts must include national and international programs aimed at reducing demand for oil as well as accelerating the development of alternative energy resources. Within the United States alone the potential for increased oil production is substantial, from new sources offshore and in the Arctic and from older sources through improved and more intensive methods of recovery, now becoming economically attractive. Other energy sources -- coal and nuclear power -- are becoming increasingly important; and eventually new energy sources can be brought forth by technological and economic incentives. However, for this to happen, we must remove governmental restrictions which now limit the development of our coal and other energy resources as well.

These efforts domestically must be combined by joint programs with other countries. Cooperative efforts in the fields of energy conservation and development of alternative resources represent important new departures for the consumer nations. Even the process of defining cooperation has meant breaking new diplomatic ground. There have also been difficulties in reconciling the interests of countries which differ markedly in both their patterns of energy consumption and their energy resources.

Yet substantial progress has been made. Conservation measures -- and higher oil prices -- have in most consuming countries predictably led to a stagnant or falling demand for oil. The foundation has also been laid for developing alternative energy resources, and means are being developed to protect needed investments in alternative sources from low cost imports of foreign oil.

Further, this is not an effort to confront the oil producing countries. I view energy conservation and the development of alternate energy resources as in the interest of the oil producers as well as the oil consumers. The oil producers are almost totally dependent on a depletable asset, namely oil, for their future. To the extent that oil is not needed, that will allow them to preserve their natural resources and will give them more time to diversify their economies.

Recently, there have been indications that there will be a rise in the price of oil soon and that such an increase would be justified since the prices of other commodities have risen. I think it is too early to say that such an increase will take place. Further, I think it is important to separate the politics from the economics of oil pricing policy. The current economics of the situation would certainly not support a price rise prediction. There is not a shortage of oil now. In fact, OPEC production is now almost a third below capacity. Of course if demand increases in the months ahead, the economic possibility of higher prices will increase.

Despite this economic situation, there is the possibility that a political decision could be made. However, we in the United States have expressed a sincere desire to address the problems facing the producing countries. We are renewing our efforts to bring about a producer-consumer dialogue. We are going forward with a bilateral economic program with the producers. In light of these efforts, I would be surprised to see the producers seek a price increase.

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I feel that we must begin to discuss the underlying economic facts more openly. We should not cast these issues into the political arena, but instead move toward an open dialogue with the producers and less developed countries -- with the aim of addressing all problems -- those of producers as well as consumers.

Raw Materials. As we seek to do this, a principle concern will be the availability of supplies of raw materials. There is no question that certain non-fuel commodities have been in short supply and this has contributed to worldwide economic dislocation during the past two years. As with energy, however, the answer lies with increased worldwide cooperation.

Non-fuel mineral commodity prices have fallen sharply during the past year after having peaked at record levels in early 1974. Despite the fact that most commodity prices are still well above the 1972 levels, recent falling prices have led many raw material producing developing countries to seek a new system which would "stabilize" or raise the price of their agricultural and non-fuel mineral exports, thus permitting them to increase their share of the world's wealth and improve their trade balances.

The U.S. and other industrialized nations are sensitive to these concerns. We are currently studying methods that could address them properly, to study international commodity problems and to formulate recommendations for U.S. commodity policy. We are willing to discuss proposals for individual commodity arrangements on a case-by-case basis, but we believe that any broad-scale commodity agreement aimed at fixing prices would be counter-productive.

Many proposals for such arrangements call for some way to link export prices of raw materials to the prices of items which developing countries import. We have spent considerable time analyzing this concept of indexation.

We believe that, even if it could work, it would not be in the interests of developing countries.

In an inflationary world, an indexation scheme would likely raise the price of raw materials well above production costs, thus encouraging additional supplies while reducing demand. The inevitable result would be surplus production, as the U.S. experienced in our domestic experiments with indexation in past agricultural programs. Furthermore, most raw materials are produced not by developing countries, but developed ones. Most developing countries are importers of raw materials such as food and fuel. Thus most indexation schemes, even if workable, would primarily benefit developed countries, often at the expense of developing ones.

We are also studying alternatives to commodity arrangements.

For example, we are looking into new ways of financing raw material investment in developing countries. We are also looking into the possibilities of improving exchange of information in commodity markets, and of negotiating both freer access to supplies and markets as well as a better climate for expansion of processing industries in producing countries.

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The problem of food shortages has received considerable international attention. The United States has played, and will continue to play a major role in helping to provide food to people of the world. We have a very productive and efficient farm sector with grain exports this year amounting to about $12 billion. We are working in the framework of international collaboration to:

(1) Expand food production in the developing countries so that they can help feed themselves.

(2) Increase the food aid contribution by the financially capable countries until the poor countries can feed themselves.

(3) Put into place this year an outline of an international grains reserve system so that production shortfalls will not create the problems we experienced in the last two years, and finally.

(4) Liberalize and expand trade in agricultural products through the Multilateral Trade Negotiations.

This approach is aimed at increasing ties between the United States and other countries -- not to perpetuate the gaps between the "haves" and the "have nots" -- but rather to help those that are in need to begin to help themselves. With respect to the establishment of an international system of nationally-held grain reserves, such a system would provide the stocks needed to offset potential shortfalls in grains production. Here, the major grain exporters and importers should agree on a fair allocation of reserve holding -- the U.S. should no longer be the only or even the dominant holder of grain reserves for the world. They should also agree on rules and guidelines about how reserves will be built up when there is surplus world production and how reserves will be released when there is a deficit. We do not want prices to rise to excessive heights nor do we want prices to fall to extremely low levels. Of course, this whole system must encourage an expansion and liberalization of world trade in grains.

The Multilateral Trade Negotiations. This outlines our general approach to the problems we face in the natural resource area. We will be pursuing our objectives in many forums. Certainly, the centerpiece of our evolving trade policy in the next several years will be our participation in the "Tokyo Round" of the Multilateral Trade Negotiations (MTN) in Geneva. These negotiations follow a series of trade

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negotiations that have been held since the end of World War II to remove in successive stages, barriers to international commerce. The United States has taken a leadership role in these negotiations. We have been convinced that the resulting expansion of world trade and economic prosperity would benefit the United States economically and would contribute importantly to international prosperity. Our policy has been shaped by a fundamental belief that prosperity leads to more peaceful relations with other countries.

Among other things, we will seek to continue the momentum towards the increased liberalization of world trade in both industrial and agricultural goods; and to negotiate with respect to developing countries mutually acceptable ways of accommodating their special needs and requirements while maintaining an open and nondiscriminatory world trading system.

Although definitive formulation of our policy will have to await the advice given after the public hearings by the International Trade Commission and the Special Trade Representative's interagency group, I can outline generally our objectives, applying to both industry and agriculture:

--<u>in tariffs</u>, we want a very substantial reduction of the high duties, as well as a significant reduction of moderate tariffs and the elimination of many low duties.

--<u>in non-tariff barriers</u>, we want to concentrate initially on a few important issues on which the groundwork for the formulation of codes of conduct has been already done -- product standards, subsidies, and customs matters.

--<u>in safeguards</u>, we want to protect against injurious import competition, developing a system to ease the impact of adjustment to the competition.

--<u>in institutional reform</u>, we want the outdated GATT rules modified (in the treatment of border taxes, safeguards, balance of payments measures, etc.), its decision making procedures to reflect more nearly the balance of economic interests, and we want extension of the "rules of the game" to cover new important issues such as access to raw materials.

There are many other questions we must address as we move into the negotiations, but these are some of the important ones. It is here that we need your advice. Where do we have particular interests which we should defend? What do you think our long-range interests should be?

<u>Conclusion</u>. In closing, I would emphasize that the aspirations which we nourish for a free and open trading system will be hard to realize. Mistakes and misfortunes abound. Drought and pestilence, fear and war -- all work to spoil the fruits of our common labors and our hopes to share them with one another through international trade.

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Yet the need for us to act is imperative. Interdependence is a fact. It offers both a challenge and an opportunity, and the world will be watching to see how the United States will respond. At a time when some people are raising questions about the nature of our commitments, we are faced with some critical choices. In this process, there are two dangerous courses that could evolve: First, that we would turn inward and begin to isolate ourselves from other parts of the world; or second, that we would become fearful of showing weakness and seek to confront certain countries in order to demonstrate strength to the world. In the past, we in the United States could draw inspiration from stewardship, now we must find it in partnership. Pursuing policies which are aimed at confronting OPEC on oil prices, which are aimed at deterring economic development in the countries of the Middle East, or which are aimed at restricting trade and investment will be counterproductive to everyone. Instead, we must seek political and economic relations which will strengthen the ability of free people to work toward a common goal together. In the days and months ahead, let us not abandon the system that has brought us both prosperity and human liberties.

It seems to me that the job of government officials is to work toward turning over to our children and grandchildren a country that is better and stronger -- that offers greater spiritual and personal rewards -- than the country we have inherited. And to me, that goal can only be accomplished if a spirit of freedom and personal reliance is restored. Unfortunately, that approach has not always prevailed. In a very real sense, we have been burning the candle at both ends -- living off our inheritance and mortgaging our future at the same time. These policies must be reversed -- for our children's sake, as well as our own.

Let me be clear: the government can and should continue to provide benefits to those in need, and to serve many positive social ends, but we can accomplish that without fatally weakening our free enterprise system. We must not allow the pendulum to swing too far toward a centralized state. To me, that is an underlying issue in both domestic and international policy, and it will be up to each of us to help correct the balance.

A famous statesman once said, "The highest and best form of efficiency is the spontaneous cooperation of a free people." At no point in our history has the need for such an approach been greater. There has never been any question in my mind of whether or not we have the capability to solve our problems. The only question is whether we will draw on this capability and do it.

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FOR IMMEDIATE RELEASE

May 27, 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 $5,500,000,000 , or thereabouts, to be issued June 5, 1975, 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 March 6, 1975, and to mature September 4, 1975 (CUSIP No. 912793 XM3), originally issued in the amount of $2,500,980,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,700,000,000, or thereabouts, to be dated June 5, 1975, and to mature December 4, 1975 (CUSIP No. 912793 YA8).

The bills will be issued for cash and in exchange for Treasury bills maturing June 5, 1975, outstanding in the amount of $4,805,505,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,314,740,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Monday, June 2, 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 $500,000 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 June 5, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing June 5, 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.

May 27, 1975

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NOTE TO CORRESPONDENTS:

Attached are the tables provided by Treasury's Office of Tax Analysis for Senator Mondale at his request, titled: "Estimated Distribution of Tax Expenditures of Individuals by Adjusted Gross Income Class, Fiscal Year 1974."

These tables are the basis of a story appearing in today's newspapers which refers to the listing of tax expenditures by adjusted gross income classes as a "study."

In response to Senator Mondale's request, the tables which are attached provided the entire answer -- there was no narrative included -- and it was accomplished routinely, as Treasury often does when supplying estimates concerning revenue, taxes, expenditures and the like.

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

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FOR IMMEDIATE RELEASE Friday, May 30, 1975

SECRETARY SIMON PRESENTS THREE UNITS WITH
PRESIDENTIAL MANAGEMENT IMPROVEMENT AWARDS

Secretary Simon presented three sections of the Treasury Department with Presidential Management Improvement plaques and certificates today in an informal ceremony in the Main Treasury Building in Washington.

On behalf of President Ford, Secretary Simon cited a team of three employees of the Bureau of the Mint who received one of the 12 Presidential Management Improvement Awards for 1974. The award is given for "outstanding contributions in improving the effectiveness and economy of Government operations."

The Mint trio, Assistant Director George G. Ambrose and Benjamin M. Horton of the Office of Production and Frank R. DeLeo of the Office of Public Service, were recognized for "their outstanding achievement in improving the coin distribution system within the Bureau of the Mint which resulted in significant productivity gains."

The Secretary also presented Presidential certificates to the Kansas City Center of the Internal Revenue Service for efficient operations in reducing the total inventory of cases. Assistant Commissioner Robert H. Terry (Accounts, Collection and Taxpayer Services) accepted the award.

A second Presidential certificate was accepted by Louis B. Sims, Chief, National Central Bureau of International Criminal Police Organization (INTERPOL), for modern communications systems and files to enable U.S. and foreign enforcement institutions to respond promptly to international incidents of crime.

The INTERPOL team included Vincent Durant, Beatrice Owens and Janice Stromsem of the U.S. Customs Service; Kenneth Giannoules and Pamela Lawson of the U.S. Secret Service; Allyn Hover, Bureau of Alcohol, Tobacco and Firearms; and Vanjewell Graham and Jennifer Schmidt of the Office of the Secretary.

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WS 323

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

FOR IMMEDIATE RELEASE

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May 28, 1975

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $1,370 million of 52-week Treasury bills to be issued to the public, to be dated June 3, 1975, and to mature June 1, 1976, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 1 tender of $70,000)

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	94.207	5.729%	6.09%
Low -	94.095	5.840%	6.21%
Average -	94.133	5.803%	6.17%

TOTAL TENDERS FROM THE PUBLIC RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted
Boston	$ 8,030,000	$ 6,030,000
New York	2,104,420,000	965,150,000
Philadelphia	26,480,000	26,480,000
Cleveland	101,365,000	72,395,000
Richmond	20,985,000	18,275,000
Atlanta	3,755,000	3,755,000
Chicago	258,555,000	115,835,000
St. Louis	30,215,000	15,795,000
Minneapolis	21,675,000	19,545,000
Kansas City	8,085,000	4,630,000
Dallas	9,965,000	6,965,000
San Francisco	223,810,000	115,670,000
TOTAL	$2,817,340,000	$1,370,525,000

The $1,370,525,000 of accepted tenders includes 29 % of the amount of bills bid for at the low price and $46,930,000 of noncompetitive tenders from the public accepted at the average price.

In addition, $1,033,600,000 of tenders were accepted at the average price from Government accounts and from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

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

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STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE MEETING OF THE MINISTERIAL COUNCIL
OF THE
ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT
PARIS, MAY 29, 1975

Mr. Chairman, Mr. Secretary General, fellow representatives:

It is a special pleasure for me to join with you in examining the economic and financial prospects of the member nations. This is a particularly opportune time for such collaboration since we all recognize the seriousness of our trilemma of problems with inflation, recession, and reductions in oil supply.

The industrial world has experienced a recession and price inflation of a severity which our complex economies could not long endure. At the same time we have had to face immense structural strains in re-ordering our entire energy balance as a result of the abrupt cut-backs in production by our traditional oil suppliers.

In responding to this unprecedented coincidence of problems we recognize that they are so intensely intertwined that we can only react with a delicate balance of seemingly conflicting policies. And in framing our responses to these problems we face great uncertainties:

-- Uncertainty concerning the path of recovery from the present recession;

-- Uncertainty whether we can bring our countries out of the recession without rekindling inflationary pressures; and finally

-- Uncertainty whether the behavior of the suppliers of much of our oil will continue to be un-economic and erratic.

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Fortunately we have recognized that a cooperative approach to our economic problems is imperative. We have demonstrated our ability to cooperate in many different institutions and particularly here in the OECD over the past year, with the trade pledge, the establishment of the International Energy Agency, and the agreement to establish the financial support fund, thereby forging key elements of the cooperative response required.

I trust that all Ministers here today will join in extending the trade pledge for another year. As the strains emanating from the oil price increases have been joined by strains occasioned by unemployed resources, it has become more important than ever that countries avoid both restrictions on imports and artificial aids to exports.

I trust also that we shall all move promptly to obtain legislative ratification of the financial support fund as a practical expression of the commitment of the industrial nations to maintain a smoothly functioning international financial system. In view of the size of the external financial shocks which could conceivably hit any one of our countries, it is important that we bring the support fund into being at the same time as we are seeking an increase in the resources of the IMF, which stands at the center of the international financial system. Simultaneously we must continue to work to bring the rules of the IMF more in line with current realities.

It is evident already that private financial markets have derived confidence from the governments' actions in assuring a stable framework for financial transactions. There has been a strong revival in international bond markets. There has been continuous evolution in the channels by which the private markets convert the bulk of oil-producer investments abroad from the forms in which they were initially placed into forms which meet the needs of the borrowers.

Despite the importance, however, of a well-functioning international financial system, and despite the importance of avoiding new distortions to our international trade, we all realize that these are necessary but not sufficient conditions for optimum performance by our economies. Our basic task is one which each of our governments must fundamentally accomplish for itself at home in restoring a satisfactory rate of growth in real output without unleashing new inflation. We recognize the special responsibility the U.S. Government has in this regard.

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Each of us must keep the others informed of his efforts, so that we may learn from each other, and so that we may take the progress of others into account in our own projections; but the basic job is one each of our governments must get done with its own resources of management.

In this situation many of us have turned our policies strongly toward expansion. As the Secretary General has observed, however, there is a time lag between the initiation of expansionary policies and their impact on output and employment. During this period, our governments will inevitably be under pressure to take still further expansionary actions. Yet unrestrained, forced-draft expansion would only lead to excessive demand later when the full impact of our actions would be felt.

The current recession in the U.S. is a direct outgrowth of our only prolonged period of widespread peacetime inflation. Our failure to control inflation left the economy and its financial markets in an extremely vulnerable position. Continued high rates of inflation reduced consumer and investor confidence, drove up interest rates, reduced real income, and distorted the pattern of financial flows. As a consequence, the housing industry went into a sharp decline, consumer spending fell off, and by late last year sharp contraction was taking place in many segments of our economy.

We must not retrace that path. In the United States, public confidence in the ability of the government to achieve a reasonable degree of price stability has been severely shaken by the experience of the past decade. That confidence must be restored. We can restore it only by achieving and maintaining a much greater price stability than we have experienced in recent years. For this reason U.S. domestic economic policies are designed to promote a balanced pattern of economic expansion -- a return to satisfactory growth as rapidly as we can without a renewal of strong inflationary pressures.

I am happy to say that, from all indications, the U.S. economy is now at or past the bottom of its recession. The near-term outlook still contains some elements of weakness. Unemployment remains unacceptably high, auto production is still at a low rate, and the index for total industrial production declined again in April, but in each of the last four months the decline in that index has been less than in the previous month, and weekly indicators of industrial production have moved upward since early April.

In other areas there are clear-cut signs of recovery. Consumers have gained some confidence from the sharp reduction in inflation rates. Although the inflation threat has by no means been eliminated, recent price developments have been definitely encouraging. Wholesale prices of industrial commodities in the U.S. have not increased significantly since the beginning of the year on average. Since the beginning of the year consumer prices have risen at less than a 6 percent annual rate. In this situation consumer purchases have been increasing this year at about the same rate that they declined late last year, and the inventory backlog has been reduced sharply. As the prospects for real personal income have improved wage settlements have been moderate, averaging approximately 7 1/2% per annum during the last seven months.

A decline in short-term interest rates and a large inflow of savings into our thrift institutions has set the stage for a recovery of the housing industry. Both housing permits and housing starts increased last month and both are now at levels well above those prevailing at the end of last year.

New orders received by durable goods manufacturers rose 9.8 per cent in April, the largest increase since 1967. These orders reversed a trend of decline registered in six of the last seven months.

It is clear to the people of the United States that their government is not leaving recovery to pure chance. The government has acted forcibly. The largest tax cut in history has been enacted. Unemployment benefits have been greatly expanded. We will experience the largest budget deficit in our history. The largest fiscal deficit in history has been brought about. Taking these developments into account, economists in the U.S. are now fairly generally agreed that the U.S. economy will be on a path of rising real output in the second half of this year. Indeed some of the respected private economists outside the government are more optimistic than our official forecasters.

But at the rate shown in our official forecasts I have the impression that U.S. growth rate may well be the highest among member countries during the second half of this year.

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To support this expansion Chairman Burns of our Federal Reserve Board has announced a target of 5 to 7 1/2 per cent growth in our money supply over the next twelve months. He and I believe that monetary growth in that range will be ample to finance the expansion while permitting further progress in reducing price inflation. Yet he and I also believe there would be grave danger if the huge fiscal deficits we already have in prospect were further increased. Such increases would threaten the continuation of the recovery we foresee for the remainder of this year. We must be concerned not only about this year, but also about the year to follow. With larger deficits we would be faced with the real prospect of finding ourselves on a new boom-and-bust rollercoaster of acceleration, inflation and subsequent recession.

What is needed is a sustainable path of short-run recovery and long-run growth. In the U.S. view, such a path is not possible without a reasonable degree of price stability.

Finding and persevering year after year in the implementation of sound policies is the major challenge. That is why I welcome the proposed OECD examination of longer-term growth prospects. Fundamental changes have taken place in the world economic environment. The increased price which our countries now pay for imported oil--and for other commodities as well--the need for vastly increased investment expenditures to free us from excessive dependence on foreign oil and the costs--and lost output--involved in bringing about the structural shifts in our own economies, which must be made in the wake of these energy developments, will make it much more difficult to achieve our economic goals. In the United States, for instance, we see the need for a vast expansion in domestic capital formation. Taking into account the sums required to reduce our dependence on imported oil, our investment expenditure needs to rise substantially from the recent levels of about 17 1/2 per cent of GNP. It has been estimated that in the coming years we shall have to devote approximately three times as much money to capital investment as we have in the recent past. The required volume of productive investment is unlikely to be forthcoming without sustained growth, as well as a shift in domestic priorities away from personal consumption and government spending and toward greater savings and capital investment. But sustained growth cannot be achieved in an economy wracked by inflation.

We must recognize that in practice, our countries will not all achieve success to the same degree and at the same time in fighting inflation. Nor will we necessarily have in future years the degree of synchronization of cyclical economic movements among our countries which we have experienced in the recent past.

Lack of uniformity, however, will not prevent us from achieving our goals if we preserve the flexibility in our international monetary arrangements which has been achieved in the last two years. Rigidity is not stability in the world of reality. Flexibility in monetary arrangements is not chaos. Rather, it is a recognition of the reality of a diverse world.

We must build the framework of our cooperation not only on our interdependence but also on a recognition of our diversity. We have long cultivated the habits of cooperation in this organization, and I believe the joint response of the OECD countries to the multiple problems of the past year and a half will be recorded as a monumental achievement in the field of economic cooperation. The achievement was fostered by an atmosphere of crisis. That crisis spurred us into a cooperation which will lead us into a new era of expanding prosperity for all nations of the world. The challenge,now that the atmosphere of crisis has been overcome,is to presevere in our cooperation in the realization that there is no better way to avoid future crises.

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Hold for Release at
11:30 a.m., E.D.T.
Friday, May 30, 1975

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

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MID-SESSION REVIEW OF THE 1976 BUDGET

May 30, 1975

NOTE: Detail may not add to totals due to rounding.

LIST OF TABLES

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This review of the 1976 budget transmits to the Congress the supplemental budget information required by section 221(b) of the Legislative Reorganization Act of 1970 (P.L. 91-510). It also provides additional information that will further aid the Congress and the public in assessing the budget outlook.

Part 1 contains revised budget summaries for fiscal years 1975 and 1976. It also includes data for the transition quarter, extending from July through September of 1976, that results from the change in the fiscal year under the Congressional Budget Act of 1974.

The estimates reflect changes that have occurred since the 1976 budget was sent to the Congress in February. In view of Congressional inaction thus far on the President's energy program, the starting date assumed has been changed to September 1. The budget as submitted in February included proposals to limit automatic cost-of-living increases in benefit programs to 5% through June 30 of next year. That limit was also proposed for civil service and military pay increases. The revised estimates assume that these "caps" will be enacted by the Congress except for increases effective on or before July 1. Thus, the full effect of the 8% social security benefit increase effective on June 1 is included in the estimates.

Part 2 presents 5-year projections of: Outlays and budget authority by agency and by function; receipts by major source; outlays for open-ended programs and fixed costs; and outlays from balances of budget authority for non-mandatory programs available at the end of fiscal year 1976.

Because Congressional action has not been completed on any of the 1976 appropriations bills and on much substantive legislation, the estimates shown in this review are necessarily tentative.

Part 1. The Budget Outlook for 1975, 1976, and the Transition Quarter

Budget Totals

The 1975 deficit is now expected to be $42.6 billion, $7.9 billion above the February estimate. Outlays are now estimated to be $323.6 billion, $10.2 billion more than in February, and receipts are estimated to be $281.0 billion, $2.2 billion above the February estimate.

The estimated deficit for 1976 has increased by $8.0 billion since February, to $59.9 billion. Outlays are up by $9.5 billion from the February estimate to $358.9 billion, and receipts have been revised upward by $1.5 billion, to $299.0 billion.

These figures reflect Congressional turndowns of $9.3 billion in deferrals and $2 billion in rescissions, adding outlays of $0.7 billion in 1975 and $1.3 billion in 1976. Unless early action is taken by the Congress on other budget reductions proposed by the President, this estimate of the deficit for 1976 will rise still further. Should the Congress fail to take action on any of these reduction proposals, over $8-1/2 billion will be added to outlays.

The following table compares the current estimates of budget totals with the estimates shown in the February budget.

Table 1

BUDGET TOTALS
(fiscal years; in billions of dollars)

Description	1974 Actual	1975 February estimate	1975 Current estimate	1976 February estimate	1976 Current estimate	Tr. Qtr. February estimate	Tr. Qtr. Current estimate
Budget receipts................	264.9	278.8	281.0	297.5	299.0	84.4	86.8
Budget outlays.................	268.4	313.4	323.6	349.4	358.9	94.3	95.8
Deficit (-)...........	-3.5	-34.7	-42.6	-51.9	-59.9	-9.8	-9.0
Full-employment receipts.......	282.2	323.1	323.0	351.8	357.0	98.4	100.0
Full-employment outlays........	267.3	306.5	316.7	340.2	349.8	91.9	94.2
Full-employment surplus or deficit (-)........	14.9	16.6	6.3	11.6	7.2	6.5	5.8
Budget authority..............	313.9	395.1	408.9	385.8	383.8	88.2	88.8
Outstanding debt, end of year:							
Gross Federal debt..........	486.2	538.5	544.5	605.9	617.5	616.8	627.6
Debt held by the public.....	346.1	389.6	396.9	453.1	470.9	465.6	482.8
Debt subject to limit.......	476.0	528.9	534.0	596.4	607.1	607.3	617.2

Economic Assumptions

The economic assumptions through calendar year 1976 reflect a changed economic forecast, based on experience since the budget assumptions were developed. They are subject to considerable uncertainty, since economic forecasting is imprecise. In this context, it should be noted that the changes from the February budget in the growth of real GNP are minor relative to the uncertainties involved.

Table 2

ECONOMIC ASSUMPTIONS
(calendar years; dollar amounts in billions)

Item	Actual 1973	Actual 1974	Forecast 1975	Forecast 1976
Gross national product:				
Current dollars:				
Amount	$1,295	$1,397	$1,474	$1,680
Percent change	11.8	7.9	5.5	14.0
Constant (1958) dollars:				
Amount	$839	$821	$792	$842
Percent change	5.9	-2.1	-3.6	6.3
Incomes (current dollars):				
Personal income	$1,055	$1,150	$1,231	$1,351
Wages and salaries	$692	$751	$787	$871
Corporate profits	$123	$141	$106	$148
Prices (percent change)[1]:				
GNP deflator:				
Year over year	5.6	10.3	9.5	7.1
Fourth quarter over fourth quarter	7.4	12.0	7.8	6.5
CPI:				
Year over year	6.2	11.0	9.1	7.1
December over December	8.8	12.2	7.8	5.8
Unemployment rates (percent):				
Total	4.9	5.6	8.7	7.9
Insured[2]	2.8	3.8	7.7	6.4
Federal pay raise, October (percent)	4.77	5.52	5.00	12.25
Interest rate, 91-day Treasury bills (percent)[3]	7.0	7.9	5.1	5.1

[1] The 1975 and 1976 figures reflect the impact on prices of the President's energy program.

[2] Insured unemployment as a percentage of covered employment; includes unemployed workers receiving extended benefits.

[3] Average rate of new issues within period; the rate shown for 1975 and 1976 was the current market rate at the time the estimates were made.

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Budget Receipts

Receipts in 1975 are now estimated to be $281.0 billion, $2.2 billion above the February estimate. The current estimate for 1976 is $299.0 billion, compared with $297.5 billion in February. These estimates are based on the economic assumptions presented in Table 2.

These receipt estimates -- including the 1975 estimates -- are tentative. There is still considerable uncertainty as to what tax collections will be in June, especially because large corporation income tax payments are made in that month.

Changes in budget receipts.--Receipts in 1975 are estimated to be $281.0 billion, $2.2 billion higher than the February estimate. The Tax Reduction Act of 1975 reduced 1975 receipts by $4.3 billion more than the tax reduction proposals in the February budget. This amount is more than offset by reestimates -- particularly of nonwithheld individual income taxes -- reflecting a significant underestimate of calendar year 1974 income tax liabilities in the budget. The data are not yet available to assess accurately the reasons for this underestimate.

Fiscal year 1976 receipts are currently estimated at $299.0 billion, $1.5 billion above the February estimate. The Tax Reduction Act reduced 1976 estimated receipts by $0.6 billion more than the President's February tax proposals, and the revised effective date of the President's energy program that is assumed in these estimates increases 1976 receipts by $1.8 billion from the amount proposed in the budget.[1] The remaining $0.2 billion change results from reestimates and changes in economic assumptions.

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[1] Exclusive of "plowback" and associated provisions, the effect of which will be neutral on the budget deficit.

The following table shows the changes in receipts by major source and indicates the reasons for these changes.

Table 3

CHANGES IN BUDGET RECEIPTS
(in billions of dollars)

	February estimate	Changes due to: Revised tax reduction	Changes due to: Delayed energy program[1]	Changes due to: Reestimates and revised economic assumptions	Current estimate
Fiscal year 1975					
Individual income taxes................	117.7	-4.5	+1.4	+7.1	121.6
Corporation income taxes................	38.5	+0.2	+1.8	+0.5	41.0
Social insurance taxes and contributions....	86.2	---	---	+0.3	86.5
Other................	36.3	---	-3.7	-0.7	31.8
Total............	278.8	-4.3	-0.5	+7.1	281.0
Fiscal year 1976					
Individual income taxes................	106.3	-0.9	+12.4	+3.5	121.3
Corporation income taxes................	47.7	+0.3	-6.8	-3.4	37.8
Social insurance taxes and contributions....	91.6	---	---	-0.7	90.9
Other................	52.0	---	-3.8	+0.8	49.0
Total............	297.5	-0.6	+1.8	+0.2	299.0

[1] Exclusive of "plowback" and associated provisions, the effect of which will be neutral on the budget deficit.

Receipts in the transition quarter are estimated at $86.8 billion, $2.4 billion above the February estimate.

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Budget Outlays

Tables 8 and 9 compare the current outlay estimates by agency and by function with those made in February.

Fiscal year 1975.--Total outlays for 1975 are currently estimated to be $323.6 billion, $10.2 billion above the February estimate. The major changes now estimated are shown in the following table.

Table 4

1975 OUTLAYS:
MAJOR CHANGES FROM THE FEBRUARY BUDGET ESTIMATES
(in billions of dollars)

February budget estimate of 1975 outlays........................ $313.4

	Congressional action or inaction	Other changes	Total changes
Offshore oil receipts (an offset to outlays).....	---	2.7	2.7
DOD Military and MAP........	0.1	1.8	1.9
HEW........................	0.9	1.4	2.3
Treasury...................	1.7	-0.2	1.6
Veterans Administration.....	0.2	1.1	1.3
Food stamp outlays..........	0.2	1.1	1.3
Special unemployment assistance................	---	-1.5	-1.5
All other (net).............	-0.1	0.8	0.6
Total..................	3.0	7.2	10.2

Current estimate of 1975 outlays.............................. $323.6

The $2.7 billion decrease in estimated offshore oil receipts (which are an offset to outlays) resulted primarily from a large shortfall in receipts from the February 1975 South Texas sale and indicates the difficulty of projecting what bidders will pay for leases of uncertain value.

Outlays for DOD Military and military assistance are $1.9 billion higher than in February as inflation and a drawdown in purchase backlogs have increased spending rates above what was originally anticipated. HEW spending is up by $2.3 billion, with $1.1 billion in health, $0.3 billion in education, and $0.8 billion in income security. About $0.6 billion of the HEW increase resulted from inaction on the President's reduction proposals.

The Tax Reduction Act of 1975 provided a $50 bonus to social security and certain other beneficiaries. This provision increases 1975 Treasury outlays by $1.7 billion. Veterans Administration outlays are $1.3 billion higher than in the budget because of inaction on the President's reduction proposals, deferred VA asset sales, and greater participation in the GI bill program than earlier anticipated. Food stamp outlays are $1.3 billion higher because of greater than anticipated participation and because of actions taken by the Congress to reject the President's food stamp reform proposals.

The major decrease in 1975 outlays results from a reestimate of outlays associated with unemployment assistance for those not covered by the regular unemployment insurance. The participation in this new program has been below the levels originally anticipated, reducing estimated outlays by $1.5 billion.

Fiscal year 1976.--The current estimate of total 1976 outlays is $358.9 billion, $9.5 billion above the February estimate. About $3.8 billion of this increase results from additions by the Congress, inaction on the President's reduction proposals, or from failure to support

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rescissions and deferrals proposed in the budget. The major changes are summarized in the table below.

Table 5

1976 OUTLAYS:
MAJOR CHANGES FROM THE FEBRUARY BUDGET ESTIMATES
(in billions of dollars)

February budget estimate of 1976 outlays........................ $349.4

	Congressional action or inaction	Other changes	Total changes
HEW........................	2.6	1.4	4.0
Department of Labor:			
Summer Youth and public sector employment.......	---	1.8	1.8
Extended unemployment benefits................	---	1.2	1.2
Reestimates..............	---	-3.0	-3.0
Highway trust fund..........	0.4	1.0	1.4
Food stamp program..........	0.6	2.3	2.9
Veterans Administration.....	---	1.5	1.5
Energy tax equalization payments..................	---	-1.2	-1.2
Petrodollar financing facility..................	---	-1.0	-1.0
All other (net)............	0.2	1.7	1.9
Total.................	3.8	5.7	9.5

Current estimate of 1976 outlays................................ $358.9

Compared with the February budget, estimated spending of HEW is up by $4.0 billion in 1976. About $2.2 billion of this results from inaction on the Administration's proposal to put a 5% ceiling on social security and supplemental security income benefit increases.

There are two major increases in employment-related outlays: First, the increased supplemental request for Summer Youth Employment and public service employment still pending before the Congress would add $1.8 billion in outlays; and second, the Administration's proposal to provide extended unemployment benefits through the end of calendar year 1976 adds another $1.2 billion. These increases are largely offset by major decreases in estimates based on experience with two new programs: unemployment assistance for those not covered by regular unemployment insurance ($-1.9 billion) and lower unemployment trust fund outlays, primarily for unemployment benefits extended beyond their regular duration ($-1.1 billion).

Highway trust fund outlays are $1.4 billion higher, resulting from releases of additional spending authority ($1.0 billion from Presidential release and $0.4 billion from Congressional releases). As in 1975, food stamp outlays are higher -- by $2.9 billion -- because of higher participation rates and the Congressional action rejecting the President's proposed reforms of the food stamp program. Veterans Administration outlays are higher due to expected participation in the GI bill program greater than anticipated in the budget, and increases in compensation and pensions.

These increases are partially offset by reduced energy tax equalization payments, which result from the delayed effective date of the Administration's energy program and by a shift in the petrodollar financing facility proposal from a direct loan program to a loan guarantee program.

Transition quarter.--Outlays in the transition quarter are estimated at $95.8 billion, $1.6 billion more than in February.

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The Budget by Fund Group

Tables 10 and 11 contain figures on changes since February in 1975 and 1976 budget totals by fund group. Most of the changes in both 1975 and 1976 have occurred in the Federal funds.

Since February, estimates of Federal funds receipts for 1975 increased by about $2.5 billion, while outlays increased by $8.1 billion, resulting in a $5.7 billion increase in the anticipated 1975 Federal funds deficit. For 1976, the Federal funds receipts estimate has increased by $2.5 billion; estimated outlays have increased by about $5.5 billion; and the anticipated Federal funds deficit has increased by $3.0 billion.

Budget Authority

Tables 12 and 13 show the February estimates of 1975 and 1976 budget authority and changes since then, by agency and by major function.

Fiscal year 1975.--Total budget authority for 1975 is estimated at $408.9 billion, $13.8 billion above the February estimate. The major changes are shown in the following table.

Table 6

1975 BUDGET AUTHORITY:
MAJOR CHANGES FROM THE FEBRUARY ESTIMATE
(in billions of dollars)

February estimate of 1975 budget authority		$395.1
EPA - sewage plant construction grants	+4.3	
Offshore oil receipts (an offset to budget authority)	+2.7	
Treasury - $50 bonus to social security and certain other beneficiaries	+1.7	
HEW	+2.7	
Department of Labor - employment-related budget authority	+1.0	
Food stamps	+0.9	
All other (net)	+0.5	
Current estimate of 1975 budget authority		$408.9

The largest single increase in budget authority since February resulted from court action to release EPA funds not previously available for obligation. This action increased 1975 budget authority by $4.3 billion. The reduction in offshore oil receipts cited earlier increases budget authority by an additional $2.7 billion, and the $50 bonus payment to social security and certain other recipients increases budget authority by $1.7 billion. HEW spending authority is up by $2.7 billion, and Department of Labor authority is up by $1.0 billion due to the request for additional Summer Youth and public sector jobs. Budget authority for food stamps is up by $0.9 billion, providing funds for a larger number of participants and higher payments than anticipated in February.

Fiscal year 1976.--Total budget authority for 1976 is currently estimated at $383.8 billion, $2.0 billion below the February estimate. The major changes are shown in the table below.

Table 7

1976 BUDGET AUTHORITY:
MAJOR CHANGES FROM THE FEBRUARY ESTIMATE
(in billions of dollars)

February estimate of 1976 budget authority		$385.8
Petrodollar financing facility	-7.0	
Energy equalization payments	-1.2	
Veterans Administration	+1.7	
Food stamps	+3.4	
All other (net)	+1.1	
Current estimate of 1976 budget authority		$383.8

The change in the petrodollar financing facility from a loan basis to a loan guarantee basis reduces 1976 budget authority by $7.0 billion.

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The revised effective date of the Administration's energy program reduces budget authority by $1.2 billion. A major increase in 1976 budget authority is $3.4 billion for food stamps, reflecting increased participation rates. Estimated budget authority required for veterans benefits is also up by $1.7 billion.

Transition quarter.--Budget authority in the transition quarter is estimated at $88.8 billion, $0.6 billion above the February estimate.

Table 8

CHANGES IN BUDGET OUTLAYS BY AGENCY
(fiscal years; in billions of dollars)

	1974 Actual	1975 February estimate	1975 Current estimate	1975 Change	1976 February estimate	1976 Current estimate	1976 Change
Defense and military assistance	78.4	84.8	86.7	1.9	92.8	92.8	---
Agriculture	9.8	8.8	10.3	1.6	9.7	13.0	3.4
(CCC and P.L. 480)	(1.7)	(2.1)	(2.3)	(0.2)	(1.6)	(1.8)	(0.2)
Commerce	1.5	1.6	1.6	*	1.8	1.8	0.1
Health, Education, and Welfare	93.7	109.9	112.2	2.3	118.4	122.4	4.0
(Social security trust funds)	(67.2)	(78.4)	(79.3)	(0.9)	(86.1)	(89.1)	(3.0)
Housing and Urban Development	4.8	5.5	5.7	0.2	7.1	7.6	0.5
Interior	1.8	2.2	2.2	*	2.5	2.5	*
Justice	1.8	2.1	2.1	---	2.2	2.2	---
Labor	9.0	19.0	17.4	-1.5	22.6	22.8	0.1
(Unemployment trust fund)	(6.1)	(13.0)	(13.0)	(---)	(15.9)	(15.7)	(-0.2)
State	0.7	0.9	1.0	0.1	1.0	1.2	0.2
Transportation	8.1	9.1	9.3	0.2	10.0	11.5	1.5
Treasury	36.0	39.7	41.2	1.6	43.5	43.5	0.1
(General revenue sharing)	(6.1)	(6.2)	(6.1)	(*)	(6.3)	(6.4)	(0.1)
(Interest on the public debt)	(29.3)	(32.9)	(32.8)	(-0.1)	(36.0)	(36.0)	(---)
Corps of Engineers	1.7	1.9	2.1	0.2	2.0	1.9	-0.1
Energy Research and Development Administration	2.3	3.1	3.1	*	3.8	3.8	---
Environmental Protection Agency	2.0	2.9	2.9	---	3.1	3.2	0.1
General Services Administration	-0.3	-1.0	-0.8	0.2	-0.5	-0.4	0.1
National Aeronautics and Space Administration	3.3	3.2	3.3	0.1	3.5	3.5	---
Veterans Administration	13.3	15.4	16.7	1.3	15.6	17.1	1.5
Foreign economic assistance	2.1	2.7	2.5	-0.2	3.0	3.0	*
Other agencies	15.1	17.7	17.9	0.2	19.6	18.8	-0.8
Allowances[1]	---	0.7	---	-0.7	8.0	6.8	-1.3
Undistributed offsetting receipts	-16.7	-16.8	-14.1	2.8	-20.2	-20.1	0.1
Total	268.4	313.4	323.6	10.2	349.4	358.9	9.5

[1] Includes allowances for civilian agency pay raises and contingencies.
* Less than $50 million.
NOTE: Detail may not add to totals due to rounding.

Table 9

CHANGES IN BUDGET OUTLAYS BY FUNCTION
(fiscal years; in billions of dollars)

	1974 Actual	1975 February estimate	1975 Current estimate	1975 Change	1976 February estimate	1976 Current estimate	1976 Change
National defense[1]	78.6	85.3	87.4	2.1	94.0	94.1	0.1
International affairs	3.6	4.0	5.0	0.1	6.3	5.5	-0.8
General science, space, and technology	4.2	4.2	4.3	0.1	4.6	4.6	---
Natural resources, environment, and energy	6.4	9.4	9.7	0.3	10.0	10.3	0.2
Agriculture	2.2	1.8	1.8	*	1.8	2.0	0.2
Commerce and transportation	13.1	11.8	12.6	0.8	13.7	15.7	1.9
Community and regional development	4.9	4.9	4.6	-0.3	5.9	6.1	0.2
Education, manpower, and social services	11.6	14.7	15.0	0.3	14.6	16.8	2.2
Health	22.1	26.5	27.6	1.1	28.0	29.0	1.0
Income security	84.4	106.7	109.1	2.4	118.7	122.8	4.1
Veterans benefits and services	13.4	15.5	16.7	1.3	15.6	17.1	1.5
Law enforcement and justice	2.5	3.0	3.0	*	3.3	3.3	---
General government	3.3	2.6	2.7	*	3.2	3.2	*
Revenue sharing and general purpose fiscal assistance	6.7	7.0	7.0	---	7.2	7.3	*
Interest	28.1	31.3	31.2	-0.1	34.4	34.4	---
Allowances[2]	---	0.7	---	-0.7	8.0	6.8	-1.3
Undistributed offsetting receipts:							
Employer share, employee retirement	-3.3	-4.1	-4.0	0.1	-3.9	-3.9	*
Interest received by trust funds	-6.6	-7.8	-7.8	*	-8.3	-8.1	0.2
Rents and royalties on the Outer Continental Shelf lands	-6.7	-5.0	-2.3	2.7	-8.0	-8.0	---
Total outlays	268.4	313.4	323.6	10.2	349.4	358.9	9.5

[1] Includes allowances for civilian and military pay raises for Department of Defense.

[2] Includes allowances for energy tax equalization payments, civilian agency pay raises, and contingencies.

* Change of less than $50 million.

Table 10

CHANGES IN BUDGET RECEIPTS AND OUTLAYS BY FUND GROUP
(fiscal years; in billions of dollars)

	1974 Actual	1975 February estimate	1975 Current estimate	1975 Change	1976 February estimate	1976 Current estimate	1976 Change
Receipts							
Federal funds........................	181.2	186.0	188.4	2.5	199.3	201.8	2.5
Trust funds..........................	104.8	118.7	117.3	-1.4	126.5	125.4	-1.1
Intragovernmental transactions.........	-21.1	-25.9	-24.7	1.2	-28.3	-28.2	*
Total........................	264.9	278.8	281.0	2.2	297.5	299.0	1.5
Outlays							
Federal funds........................	198.7	229.0	237.1	8.1	254.2	259.7	5.5
Trust funds..........................	90.8	110.3	111.2	0.8	123.4	127.4	4.0
Intragovernmental transactions.........	-21.1	-25.9	-24.7	1.2	-28.3	-28.2	*
Total........................	268.4	313.4	323.6	10.2	349.4	358.9	9.5
Surplus or deficit (-)							
Federal funds........................	-17.5	-43.0	-48.7	-5.7	-54.9	-57.9	-3.0
Trust funds..........................	14.0	8.3	6.1	-2.3	3.1	-2.0	-5.1
Total........................	-3.5	-34.7	-42.6	-7.9	-51.9	-59.9	-8.0

* Less than $50 million.

NOTE: Detail may not add to totals due to rounding.

Table 11

BUDGET SURPLUS OR DEFICIT (-) BY FUND GROUP AND TYPE OF TRANSACTION
(fiscal years; in billions of dollars)

	1974 Actual	1975 February estimate	1975 Current estimate	1975 Change	1976 February estimate	1976 Current estimate	1976 Change
Federal funds							
Transactions with the public...........	-2.8	-23.7	-30.5	-6.9	-33.3	-36.3	-3.0
Transactions with trust funds..........	-14.7	-19.4	-18.2	+1.2	-21.6	-21.6	*
Total.........................	-17.5	-43.0	-48.7	-5.7	-54.9	-57.9	-3.0
Trust funds							
Transactions with the public...........	-0.7	-11.0	-12.1	-1.0	-18.5	-23.6	-5.1
Transactions with Federal funds........	14.7	19.4	18.2	-1.2	21.6	21.6	*
Total.........................	14.0	8.3	6.1	-2.3	3.1	-2.0	-5.1
Budget total							
Federal funds.........................	-17.5	-43.0	-48.7	-5.7	-54.9	-57.9	-3.0
Trust funds...........................	14.0	8.3	6.1	-2.3	3.1	-2.0	-5.1
Total.........................	-3.5	-34.7	-42.6	-7.9	-51.9	-59.9	-8.0

* Less than $50 million.

NOTE: Detail may not add to totals due to rounding.

Table 12

CHANGES IN BUDGET AUTHORITY BY AGENCY
(fiscal years; in billions of dollars)

	1974 Actual	1975 February estimate	1975 Current estimate	1975 Change	1976 February estimate	1976 Current estimate	1976 Change
Defense and military assistance	88.9	90.8	90.2	-0.6	106.3	106.3	---
Agriculture	13.1	13.8	15.0	1.2	11.9	15.3	3.5
(CCC and P.L. 480)	(3.9)	(4.9)	(4.9)	(---)	(4.3)	(4.3)	(---)
Commerce	1.5	1.7	1.8	0.1	1.8	1.7	*
Health, Education, and Welfare	100.9	114.0	116.6	2.7	120.4	119.9	-0.4
(Social security trust funds)	(73.1)	(82.9)	(83.6)	(0.7)	(88.8)	(88.0)	(-0.8)
Housing and Urban Development	8.1	51.0	51.4	0.5	30.3	31.0	0.7
Interior	2.0	3.9	3.9	*	2.5	2.5	*
Justice	1.9	2.1	2.1	---	2.1	2.1	---
Labor	10.6	19.9	20.9	1.0	11.3	11.0	-0.3
(Unemployment trust fund)	(7.5)	(9.7)	(7.6)	(-2.1)	(9.8)	(9.3)	(-0.5)
State	0.8	0.9	1.2	0.3	1.0	1.0	*
Transportation	17.6	19.1	19.2	0.1	4.4	4.4	0.1
Treasury	36.0	39.7	41.4	1.7	43.6	43.6	---
(General revenue sharing)	(6.1)	(6.2)	(6.2)	(---)	(6.4)	(6.4)	(---)
(Interest on the public debt)	(29.3)	(32.9)	(32.8)	(---)	(36.0)	(36.0)	(---)
Corps of Engineers	1.8	1.7	1.7	---	1.9	1.9	---
Energy Research and Development Administration	2.5	3.6	3.6	---	4.2	4.2	---
Environmental Protection Agency	6.0	4.2	8.5	4.3	0.7	0.7	---
General Services Administration	-0.5	-0.9	-0.7	0.2	-0.3	-0.2	0.1
National Aeronautics and Space Administration	3.0	3.2	3.2	---	3.5	3.5	---
Veterans Administration	13.9	16.0	16.8	0.8	16.1	17.8	1.7
Foreign economic assistance	3.8	3.1	2.6	-0.5	3.0	3.7	0.7
Other agencies	18.5	23.5	23.4	-0.1	32.9	26.1	-6.8
Allowances[1]	---	0.8	---	-0.8	8.3	7.1	-1.2
Undistributed offsetting receipts	-16.7	-16.8	-14.1	2.8	-20.2	-20.1	0.1
Total	313.9	395.1	408.9	13.8	385.8	383.8	-2.0

[1] Includes allowances for civilian agency pay raises and contingencies.

* Less than $50 million.

NOTE: Detail may not add to totals due to rounding.

Table 13

CHANGES IN BUDGET AUTHORITY BY FUNCTION
(fiscal years; in billions of dollars)

	1974 Actual	1975 February estimate	1975 Current estimate	1975 Change	1976 February estimate	1976 Current estimate	1976 Change
National defense[1]	89.3	91.3	90.9	-0.4	107.7	107.8	0.1
International affairs	5.3	4.9	4.7	-0.2	12.6	6.3	-6.3
General science, space, and technology	3.9	4.3	4.3	---	4.7	4.7	---
Natural resources, environment, and energy	10.7	11.5	16.0	4.5	12.2	12.3	0.1
Agriculture	4.5	5.9	5.9	*	4.3	4.3	---
Commerce and transportation	23.5	28.9	29.5	0.5	6.6	7.0	0.4
Community and regional development	4.0	5.1	5.2	0.1	5.2	5.4	0.3
Education, manpower, and social services	13.2	14.6	16.9	2.4	13.7	13.8	0.1
Health	26.4	28.4	29.6	1.2	31.0	31.0	*
Income security	95.2	156.1	158.9	2.8	135.3	138.1	2.7
Veterans benefits and services	14.0	16.0	16.8	0.8	16.2	17.8	1.7
Law enforcement and justice	2.6	3.1	3.1	*	3.2	3.2	---
General government	3.1	2.7	2.7	*	3.2	3.2	*
Revenue sharing and general purpose fiscal assistance	6.7	7.1	7.1	---	7.3	7.3	*
Interest	28.1	31.3	31.2	-0.1	34.4	34.4	---
Allowances[2]	---	0.8	---	-0.8	8.3	7.1	-1.2
Undistributed offsetting receipts:							
Employer share, employee retirement	-3.3	-4.1	-4.0	0.1	-3.9	-3.9	*
Interest received by trust funds	-6.6	-7.8	-7.8	*	-8.3	-8.1	0.2
Rents and royalties on the Outer Continental Shelf lands	-6.7	-5.0	-2.3	2.7	-8.0	-8.0	---
Total budget authority	313.9	395.1	408.9	13.8	385.8	383.8	-2.0

[1] Includes allowances for civilian and military pay raises for Department of Defense.

[2] Includes allowances for energy tax equalization payments, civilian agency pay raises, and contingencies.

* Change of less than $50 million.

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Part 2. Longer-Range Projections

The February budget presented longer-range (through 1980[1]) projections in greater detail than was the case in earlier budgets. In addition, the budget provided detailed economic assumptions on which the projections were based. This section of the Mid-Session Review presents revisions of these longer-range data.

Economic Assumptions

The current state of the economic forecasting art is much too crude to attempt forecasts for the years beyond 1976. Indeed, as mentioned earlier, the 1976 forecasts also involve a large degree of uncertainty. Therefore, in Table 14, economic data for the years 1977 to 1980 are derived using a simple extrapolation based on the 1976 forecast. The projection assumes that real GNP grows at a rate of 6.5% a year -- the same rate that was used in the February budget. While the data derived from this assumption are provided in detail and as exact numbers, they are based on extrapolation and are not, therefore, forecasts.

There is no intent to imply that the economy will follow this exact path, nor that it is an ideal path. It may grow less rapidly in some periods and more rapidly in others, and it is hoped that -- in general -- it will average better than is assumed by these data. The purpose of

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[1] Due to the change in the fiscal year established by the Congressional Budget and Impoundment Control Act of 1974, fiscal year 1977 and subsequent fiscal years will begin on October 1 of one calendar year and end on September 30 of the following calendar year. Prior fiscal years, ending with fiscal year 1976, began on July 1 and extended through June 30 of the following calendar year.

presenting these assumptions is solely to provide a base for projecting the budget. The projections indicate what will result under present law and Presidential proposals if the economy follows a 6-1/2% growth path -- one that is not unreasonable judged by historical standards.

Budget Projections

The revisions in budget outlays, budget authority, and receipts through 1980 reflect:

-- the out-year effects of the changed economic forecast for 1976;

-- actions by the Congress and the President since February; and

-- program experience since February.

Also presented in this section are two sets of projections required by section 221(b) of the Legislative Reorganization Act of 1970: Projections of outlays under open-ended programs and fixed costs; and projected outlays from balances of budget authority available at the end of fiscal year 1976 for non-mandatory programs.

The receipts projections in Table 16 reflect the economic assumptions presented in Table 14 and assume current tax law, except for the proposed modifications under the President's energy program. The outlay and budget authority estimates in Tables 17 through 19 indicate the degree to which resources would be committed by the continuation of existing and currently-proposed programs at the levels currently recommended for 1976. These projections are not intended as forecasts of future receipts, outlays, or budget authority because no attempt is made to predict future decisions or their effects. Nor are the projections intended as recommendations for future-year funding, since the continuation of Federal programs and taxes is a matter properly subject to continuous review in light of changing conditions.

Table 14

ECONOMIC ASSUMPTIONS FOR BUDGET PROJECTIONS[1]
(calendar years; dollar amounts in billions)

Item	Assumed for Purposes of Budget Projections 1977	1978	1979	1980
Gross national product:				
Current dollars:				
Amount	$1,891	$2,107	$2,335	$2,586
Percent change	12.6	11.4	10.8	10.8
Constant (1958) dollars:				
Amount	$897	$956	$1,018	$1,084
Percent change	6.5	6.5	6.5	6.5
Incomes (current dollars):				
Personal income	$1,515	$1,689	$1,874	$2,078
Wages and salaries	$978	$1,092	$1,211	$1,344
Corporate profits	$173	$193	$214	$237
Prices (percent change):				
GNP deflator:				
Year over year	5.7	4.6	4.1	4.0
Fourth quarter over fourth quarter	5.2	4.3	4.0	4.0
CPI:				
Year over year	5.3	4.4	4.0	4.0
December over December	4.8	4.2	4.0	4.0
Unemployment rates (percent):				
Total	7.2	6.5	5.8	5.1
Insured[2]	6.1	4.7	4.0	3.2
Federal pay raise, October (percent)	6.75	6.50	6.00	5.50
Interest rate, 91-day Treasury bills (percent)[3]	5.1	5.1	5.0	5.0

[1] Based on extrapolations using a 6.5% rate of real growth in GNP for 1977-1980.

[2] Insured unemployment as a percentage of covered employment; includes unemployed workers receiving extended benefits.

[3] Average rate of new issues within period.

In general, the outlay projections assume that program levels remain constant except where they would change under current law or where there is an explicit Administration recommendation to increase or decrease program levels over time. One example is the anticipated increase in energy research and development programs between 1976 and 1977. Similarly, while defense manpower requirements are assumed to remain constant, other defense purchases are assumed to rise by 4% a year in real terms. The projections allow for changes in beneficiary populations for programs such as social security. Allowances are also made for future cost-of-living adjustments to benefit levels, Federal pay raises, and other cost increases. These allowances are consistent with the economic assumptions outlined in Table 14 and with the effect of the proposed temporary 5% ceiling on automatic cost-of-living and comparability pay increases between 1975 and 1976.

Table 15

THE FISCAL OUTLOOK, 1977-1980
(in billions of dollars)

	1977	1978	1979	1980
Outlays under current programs.............	388.4	417.4	443.0	467.3
Outlays under proposed programs............	9.9	14.3	15.1	15.5
Total projected outlays...............	398.4	431.6	458.1	482.8
Receipts under current law.................	364.0	416.4	466.4	517.2
Effects of energy tax proposals............	+0.4	-4.2	-9.4	-12.4
Total projected receipts..............	364.4	412.2	457.0	504.8
Budget margin or deficit (-)...............	-34.0	-19.4	-1.1	+22.0

Table 15, above, compares projected total receipts and total outlays. The difference between these figures -- the budget margin -- is the potential budget surplus or deficit that would be expected to occur if there were to be no tax changes, no new programs created, and no discretionary program increases or decreases other than those currently recommended.

Table 16

RECEIPTS BY MAJOR SOURCE, 1977-1980
(in billions of dollars)

	1977	1978	1979	1980
Individual income taxes....................	151.3	174.2	197.5	222.9
Corporation income taxes...................	52.7	59.3	62.6	68.8
Social insurance taxes and contributions...	106.3	121.8	136.9	150.0
Other......................................	54.3	56.9	60.0	63.1
Total receipts........................	364.4	412.2	457.0	504.8

Table 17

BUDGET AUTHORITY AND OUTLAYS BY FUNCTION
(in billions of dollars)

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Description	1977	1978	1979	1980
Budget authority:				
National defense	119.0	128.8	138.8	147.6
International affairs	9.0	8.9	8.5	8.1
General science, space, and technology	4.8	4.6	4.2	3.7
Natural resources, environment, and energy	8.0	8.1	7.5	7.4
Agriculture	2.0	1.9	2.1	2.1
Commerce and transportation	14.5	14.9	27.9	15.1
Community and regional development	5.8	5.6	5.8	5.9
Education, manpower, and social services	13.2	13.2	13.2	13.3
Health	35.1	41.1	46.7	51.7
Income security	178.0	191.4	203.8	214.8
Veterans benefits and services	17.0	16.2	15.7	15.3
Law enforcement and justice	3.3	3.3	3.4	3.5
General government	3.6	3.6	3.7	3.9
Revenue sharing and general purpose fiscal assistance	7.4	7.5	7.7	7.8
Interest	38.9	40.4	41.4	42.4
Allowances	13.8	16.7	19.6	22.5
Undistributed offsetting receipts	-21.4	-22.2	-23.0	-23.8
Total budget authority	452.0	484.0	527.0	541.1
Outlays:				
National defense	105.5	120.5	131.6	141.5
International affairs	7.4	7.6	7.5	7.3
General science, space, and technology	4.7	4.6	4.3	3.9
Natural resources, environment, and energy	12.7	14.1	13.4	11.2
Agriculture	2.5	2.2	2.9	2.9
Commerce and transportation	16.1	16.5	15.8	15.5
Community and regional development	6.7	6.9	5.9	5.9
Education, manpower, and social services	13.6	13.3	13.3	13.2
Health	32.6	36.1	40.2	44.7
Income security	135.2	145.6	156.4	167.0
Veterans benefits and services	16.8	16.0	15.5	15.1
Law enforcement and justice	3.4	3.3	3.4	3.5
General government	3.5	3.5	3.6	3.7
Revenue sharing and general purpose fiscal assistance	7.5	7.5	7.6	7.7
Interest	38.9	40.4	41.4	42.4
Allowances	12.6	15.5	18.4	21.2
Undistributed offsetting receipts	-21.4	-22.2	-23.0	-23.8
Total outlays	398.4	431.6	458.1	482.8

Table 18

BUDGET AUTHORITY BY AGENCY
(in billions of dollars)

Department or other unit	1977	1978	1979	1980
Budget authority:				
Legislative and judicial branches	1.4	1.3	1.3	1.3
Executive Office of the President	.1	.1	.1	.1
Funds appropriated to the President	7.4	7.0	6.6	5.9
Agriculture:				
Food stamps and other nutrition programs	9.0	9.2	9.7	10.0
Other Agriculture	4.4	4.5	4.9	5.0
Commerce	1.9	1.9	1.9	2.1
Defense-Military:				
Military retired pay	7.7	8.3	9.5	10.3
Defense less retired pay	97.4	100.8	103.7	106.0
Pay and price increases	9.0	14.8	20.9	26.7
Defense-Civil	2.2	2.2	2.1	2.0
Health, Education, and Welfare:				
Social security	77.7	86.2	95.4	105.1
Medicare	21.5	26.5	30.8	34.5
Other Health, Education, and Welfare	33.9	35.0	36.4	38.1
Housing and Urban Development	54.3	54.1	54.0	54.0
Interior	2.2	2.5	2.5	2.6
Justice	2.2	2.2	2.3	2.3
Labor:				
Unemployment trust fund	11.1	13.8	13.9	12.2
Other Labor	4.0	3.7	3.8	3.8
State	1.1	1.2	1.3	1.4
Transportation	10.0	10.2	23.3	10.5
Treasury:				
Interest on the public debt	40.5	42.0	43.0	44.0
General revenue sharing	6.5	6.7	6.8	7.0
Other Treasury	1.3	1.4	1.5	1.6
Civil Service Commission	14.4	16.4	18.5	20.7
National Aeronautics and Space Administration	3.6	3.4	3.1	2.7
Veterans Administration	17.0	16.2	15.7	15.3
Other agencies	18.0	17.8	17.4	17.4
Allowances:				
Energy tax equalization payments	7.0	7.0	7.0	7.0
Other pay, price, and contingencies	6.8	9.7	12.6	15.5
Undistributed offsetting receipts	-21.4	-22.2	-23.0	-23.8
Total budget authority	452.0	484.0	527.0	541.1
MEMORANDUM				
Federal funds	339.8	355.8	384.8	387.4
Trust funds	145.9	160.8	177.8	193.9
Interfund transactions	-33.7	-32.7	-35.6	-40.2
Total	452.0	484.0	527.0	541.1

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Table 19

BUDGET OUTLAYS BY AGENCY
(in billions of dollars)

Department or other unit	1977	1978	1979	1980
Outlays:				
Legislative and judicial branches	1.4	1.3	1.3	1.3
Executive Office of the President	.1	.1	.1	.1
Funds appropriated to the President	6.0	6.0	5.7	5.4
Agriculture:				
Food stamps and other nutrition programs	9.0	9.2	9.7	10.0
Other Agriculture	4.9	5.2	5.8	5.9
Commerce	2.1	1.9	1.9	2.1
Defense-Military:				
Military retired pay	7.7	8.3	9.5	10.3
Defense less retired pay	87.4	96.0	100.0	103.4
Pay and price increases	6.7	12.5	18.4	24.2
Defense-Civil	2.1	2.2	2.2	2.0
Health, Education, and Welfare:				
Social security	83.5	92.2	100.6	109.3
Medicare	18.3	21.0	24.0	27.2
Other Health, Education, and Welfare	34.9	35.7	36.9	38.3
Housing and Urban Development	8.2	9.3	9.6	10.7
Interior	2.0	2.2	2.2	2.3
Justice	2.3	2.2	2.3	2.3
Labor:				
Unemployment trust fund	14.6	13.7	12.7	11.4
Other Labor	4.1	3.7	3.8	3.8
State	1.1	1.2	1.3	1.4
Transportation	12.1	12.9	12.3	12.2
Treasury:				
Interest on the public debt	40.5	42.0	43.0	44.0
General revenue sharing	6.6	6.7	6.8	7.0
Other Treasury	1.3	1.5	1.5	1.7
Civil Service Commission	9.2	10.3	11.4	12.7
National Aeronautics and Space Administration	3.6	3.4	3.1	2.7
Veterans Administration	16.8	16.0	15.5	15.0
Other agencies	20.6	21.6	21.2	18.8
Allowances:				
Energy tax equalization payments	7.0	7.0	7.0	7.0
Other pay, price, and contingencies	5.6	8.5	11.4	14.2
Undistributed offsetting receipts	-21.4	-22.2	-23.0	-23.8
Total outlays	398.4	431.6	458.1	482.8

MEMORANDUM

	1977	1978	1979	1980
Federal funds	289.9	310.0	327.4	343.2
Trust funds	142.2	154.3	166.3	179.8
Interfund transactions	-33.7	-32.7	-35.6	-40.2
Total	398.4	431.6	458.1	482.8

Projections of Outlays for Open-Ended Programs and Fixed Costs

Section 221(b) of the Legislative Reorganization Act of 1970 requires that the President transmit to the Congress "summaries of the estimated expenditures for the first four fiscal years following fiscal year [1976], which will be required under continuing programs which have a legal commitment for future years or are considered mandatory under existing law." Table 20 contains these estimates.

Table 20 indicates that benefit payments to individuals under existing legislation are projected to grow by roughly $16 billion a year from 1977 to 1980. Although legislation to renew the program is pending, outlays for the existing general revenue sharing program are shown in this table as dropping from $6 billion in 1975 and 1976, to $3 billion in 1977, and to zero in 1978 because the current statutory authorization expires after December 1976 and only the existing program is currently "relatively uncontrollable." (In Tables 17, 18, and 19, however, the program is shown as continuing uninterrupted through 1980.) Outlays for other open-ended programs and fixed costs are projected to be relatively stable.

As the footnote on Table 20 states, the estimates represent simple projections of outlays under existing law. They are not intended to predict future economic conditions; nor do they reflect possible increases or decreases in the scope or quality of the program. Further, the resources that might appropriately be applied in later years will require a reexamination of the relative priorities of these and other Government programs in the light of economic and other circumstances then prevailing. Thus, the estimates do not represent a commitment as to amounts to be included in future budgets.

Table 20

PROJECTIONS OF OUTLAYS FOR OPEN-ENDED PROGRAMS AND FIXED COSTS UNDER EXISTING LAW[1]
(in billions of dollars)

Category	1976	Tr. qtr.	1977	1978	1979	1980
Relatively uncontrollable under present law:						
Open-ended programs and fixed costs:						
Payments for individuals:						
Social security and railroad retirement.........	76.3	20.9	87.9	96.8	105.3	114.1
Federal employees retirement and insurance......	16.0	4.3	18.6	20.8	22.8	24.9
Unemployment assistance.........................	16.8	3.2	15.4	14.3	13.2	11.9
Veterans benefits...............................	13.4	3.0	12.6	11.8	11.2	10.7
Medicare and medicaid...........................	24.6	6.6	29.2	33.4	38.0	43.0
Housing payments................................	2.6	0.7	3.1	4.0	5.6	6.9
Public assistance and related programs..........	18.4	4.9	19.3	19.9	20.4	21.0
Subtotal, payments for individuals..........	168.2	43.6	186.2	200.9	216.5	232.5
Net interest....................................	26.3	8.6	29.7	30.7	31.2	31.7
General revenue sharing (existing law only)........	6.4	1.6	3.4	---	---	---
Other open-ended programs and fixed costs..........	9.8	2.8	10.7	10.1	10.7	9.6
Total, open-ended programs and fixed costs, current law..................	210.6	56.7	229.9	241.8	258.3	274.8

1 This table is supplied pursuant to the requirements of section 221(b) of the Legislative Reorganization Act of 1970 (P.L. 91-510). The estimates represent simple projections of outlays under existing law. They are not intended to predict future economic conditions; nor do they reflect possible increases or decreases in the scope or quality of the program. Further, the resources that might appropriately be applied in later years will require a reexamination of the relative priorities of these and other Government programs in the light of economic and other circumstances then prevailing. Thus, the estimates do not represent a commitment as to amounts to be included in future budgets.

NOTE: Detail may not add to totals due to rounding.

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<u>Outlays from Balances of Budget Authority Available at the End of Fiscal year 1976: Non-Mandatory Programs</u>

Section 221(b) of the Legislative Reorganization Act of 1970 also requires that the President shall transmit to the Congress "summaries of estimated expenditures, in fiscal years following fiscal year [1976], of balances carried over from . . . fiscal year [1976]." Table 21 contains these estimates.

The current estimate of the balances at the end of fiscal year 1976 for programs -- the outlays for which are controllable -- is $187 billion, roughly $2 billion below the budget estimate. About $15 billion of this total is in guarantee and insurance program balances, very little of which is expected ever to be spent.

The spending pattern from the balances in other programs, which amount to $173 billion, is fairly consistent among the programs. Not surprisingly, the bulk of the spending takes place in the transition quarter and in 1977, and declines rapidly thereafter. On the average, more than 14% is expected to be spent in the transition quarter, 37% in 1977, and almost 16% in 1978.

Of the 1976 end-of-year balances in programs other than guarantee and insurance programs, about 14% ($26 billion) is expected to remain unexpended at the end of fiscal year 1980. Slightly more than $1 billion of the 1976 end-of-year balances are expected to expire (without being spent) during the transition quarter and fiscal years 1977 through 1980.

Table 21

ESTIMATED SPENDING FROM END OF FISCAL YEAR 1976 BALANCES OF BUDGET AUTHORITY:
NON-MANDATORY PROGRAMS
(in billions of dollars)

	Federal guarantee and insurance programs: Reserves for losses and standby and backup authority	Other unexpended balances, June 30, 1976	Total
Total balances, end of 1976 (current estimate)........	14.6	172.7	187.3
Spending from balances in:			
Transition quarter..............................	.1	26.8	26.9
1977..	.4	63.6	64.0
1978..	.2	29.1	29.4
1979..	.2	17.2	17.4
1980..	.2	9.0	9.2
Expiring balances, transition quarter through 1980....	*	1.2	1.3
Unexpended balances as of end of 1980.................	13.3	25.8	39.1

* Less than $0.5 billion.

Note: Detail may not add to totals due to rounding.

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ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE BOND CLUB
NEW YORK CITY, MAY 30, 1975

It's good to be among friends again. Let me apologize to you once more for bowing out of an earlier engagement here. I am delighted that my raincheck is still good.

Before coming to New York tonight, I had a chance to re-read the remarks that I planned to deliver here in February. The thrust of that speech was an attack on one of the economic myths prevalent at that time: that the economy would not weather the current economic storm. I believed then, as I do now, that natural cyclical forces within the economy, strengthened and supported by the Government, would reverse the slump in economic activity. As you will recall, there was a long period of time when many people were much more pessimistic. Art Buchwald summed up popular opinion the day after I was sworn in: "Bill," he said, "you've just become the purser on the Titanic."

Now that we are at or near the end of the recession and the skeptics have been proven wrong, I come before you tonight to challenge some new myths that have grown up about our economy, and particularly about the period of recovery. I might add that as economic conditions have changed, my friendly critics no longer compare me to the purser on the Titanic but to a fiscal Don Quixote off tilting at windmills. Nonetheless, I think it is important to address these myths seriously because they often exert a heavy influence upon the decisions about public policy. Let me talk with you about three of them.

Myth #1: Huge Federal Deficits Present No Dangers

One of the myths that I frequently hear, especially from Congressmen and economists who regard big Federal spending as the panacea for all our economic troubles, is that our financial structure can absorb almost limitless amounts of Federal borrowing without substantial damage.

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The argument is often cast this way: In order to sweep away unemployment as quickly as possible, the Federal Government should sharply increase its social spending. The resulting deficits, even if they reach $100-billion, could easily be absorbed because the economy is slack. Nor should we worry, it is said, about private demands competing with public demands during a period of recovery or the inflation that would result because those problems are at least a year or two away. And besides, we can easily avoid a competition for funds if the Federal Reserve expands money and credit -- monetizing the debt, as it is called. Those who disagree are said to be economically unsophisticated as well as lacking in compassion for the poor and the unemployed.

Obviously, I disagree and I would respectfully suggest to the theoreticians that they are ignoring the practical realities of the marketplace. As Dr. Paul McCracken stated recently, "If the financial community has been slow to appreciate the role of fiscal policy in the management of the economy, (then) economists have been slow to face fully the implications of the fact that Treasury financing and private borrowing do compete for funds in the same money and capital markets. And Treasury requirements are now large enough so that their impact on financing in the private sector must be faced quite explicitly."

For several months, I have been emphasizing that deficits in the range of $60-billion -- the range that the Administration has set as a ceiling for fiscal year 1976 -- might create some strains in our financial markets, but they should be manageable. However, deficits in the magnitude of $80- to $100-billion -- which are still within the realm of possibility -- would be excessive and dangerous.

Some commentators have misinterpreted my statements to mean that we face serious difficulties in the current calendar year. That is not the case. Because we are near the bottom of the recession, when private short-term demands for credit are falling and monetary policy is easing, the financing of Federal deficits is unlikely to present serious problems this year.

As the recovery takes hold next year, however, several critical dangers would arise in the capital markets if the rising tide of private borrowers are forced to compete with enormous Federal borrowing needs.

One of the most obvious of those dangers is that of "crowding out," a concept that is not yet fully understood. "Crowding out" actually happens every day in the credit markets because demands for funds always exceed supply so that some would-be borrowers -- those who present the greatest financial

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risks -- are constantly being crowded out at the margin. On the other hand, those high-quality borrowers who have deferred their bond issues recently are not being "crowded out," as some have suggested, because in fact they can obtain credit from alternative sources. In reality, they are "opting out" of the long-term market because they do not find it very profitable at current interest rates or they think they can obtain better terms later.

The "crowding out" that concerns me with regard to the recovery period involves neither those borrowers of the very highest quality nor those of the very lowest, but the millions of borrowers who are somewhere in between -- the housing industry, utilities, and small businessmen, for instance, who will be hungry for funds as the economy moves into high gear. All borrowers are always forced to stand behind the Federal Government in the line for capital funds. If the Government's demands are so large as to preempt much of the available funds, many of these medium-range borrowers could easily be denied access to money at interest rates they can afford. They would be crowded out and the economic recovery could thus be stifled.

The dangers of large-scale Federal deficits do not stop there, however. The vicious competition for funds between the public and private sectors that caused the crowding out would also drive interest rates much higher, creating some of the same conditions that led us into the present quagmire of an inflationary recession. Already, we are seeing that Federal demands for funds have helped to keep interest rates at levels that are higher than normal for a recession, so that the coming recovery will start from a higher level of interest rates and inflation.

Clearly, if the Federal deficits are immense, the Federal Reserve would have the choice of accommodating private and public demands by creating a more rapid growth in money and credit. Yet, while a large expansion of the money supply might postpone the adverse impact on the recovery for perhaps a year or two, the consequences of that action would soon catch up with us in the form of re-accelerated inflation. The one sure way of ensuring that the Fed is not placed under such expansionary pressures -- to ensure that it does not have to make a Hobson's choice between a credit crunch or more inflation is to keep the lid on the Federal deficit.

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Let me emphasize that I am not forecasting such a dire outcome in the capital markets; I am only warning of the possible consequences of misguided fiscal and monetary policies. No one can say with precision just when Federal borrowing needs would create intolerable strains. We do know that based on the President's budget and current enactments the Treasury will need to borrow some $75-billion in funds this calendar year -- a billion and a half dollars a week. In 1976, if the outlay totals projected in Congress are an accurate projection and if there is an extension of the major tax-cutting provisions -- a prospect that seems increasingly likely -- our borrowing needs could reach $84-billion. Most assuredly, financing needs of that magnitude would propel us into the danger zone.

As to the argument by some economists that we should not worry about the inflationary consequences of our actions until next year or beyond, I can hardly believe that anyone seriously believes that. I am reminded here of the comment of Thomas Fuller more than two centuries ago: "Natural folly is bad enough, but learned folly is intolerable.." If we are so shortsighted as to try to spend our way out of this recession and damn the cost, it will be too late to begin worrying about inflation in 1976 or 1977: The next wave will already be crashing down upon us.

It has been suggested in some quarters that my warnings about Federal deficits have been irresponsible and have caused unnecessary turbulence in the private markets. That's like blaming the messenger for the contents of the message he brings, or as the Wall Street Journal put it, like blaming obstetricians for higher birth rates.

As the nation's chief financial officer, my highest duty is to protect the financial integrity of this government. My warnings perhaps have had a temporary effect on interest rates -- a day or two at the most -- but the key factor in the market continues to be what the millions of participants perceive to be the realities of current and prospective financial conditions. Those who overrate the effects of my warnings seriously underrate the intelligence of the investing public. Investors will face the facts for themselves, and in this case the facts are too obvious to be hidden in the labyrinths of the government. Nor should they be: Our markets work most effectively when everyone has equal access to a maximum amount of information.

Moreover, my views were directed less to Wall Street than to Capitol Hill and while it is too early to claim any triumph there yet, I am encouraged that the more responsible members of Congress have scaled down original estimates of $100-billion deficits to deficits in the range of $70-billion. That represents significant progress, and I hope that all of us can work together to translate that progress into sound policies for the future.

Myth #2: Government Stimulation is All that the Economy Needs

A second myth that has gained widespread acceptance goes to the broader issue of what ails our economy. It suggests that the economy is like a car with a flat tire. The only thing we need to do is pump it up with fiscal and monetary stimulation, and everything will be all right for the long economic journey that lies ahead.

I believe that, to the contrary, our troubles are much more serious in nature. The chronic inflation that has afflicted us since the mid-1960s, followed almost inevitably by a severe recession, has arisen because we have become accustomed to living only for the moment, rarely for the future. In our government, we have had one budget deficit after another -- 14 in the past 15 years -- so that we have built inflationary pressures as well as inflationary expectations into the very fabric of our economy. Our monetary policies, partly in an effort to accommodate our deficits, have also pumped excessive stimulation into the economy over a 10-year period. In the private sector, we have for many years overconsumed and underinvested. As a result, by 1973 and early 1974, we began to experience capacity shortages in some of our most critical industries, contributing to the inflation that followed. And as Martin Mayer has pointed out in his new book on bankers, we have been electing politicians who promise that we can control pollution, rebuild our medical system, overhaul our transportation, guarantee the good life to the poor and the aged, provide a college education for everyone, feed the world, improve our weapons systems and continue to increase everybody's real income -- all at the same time.

Clearly, we have been burning the candle at both ends -- simultaneously living off our inheritance and mortgaging our future in a desperate bid for instant prosperity. It should hardly come as any surprise that our overindulgent past has finally caught up with us.

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As we begin now to work our way out of this quagmire -- as the recession nears its end and inflation approaches a more tolerable range -- it is time to start directing our attention away from the instant gratifications of today and toward the greater challenges of tomorrow.

In the interests of brevity, I will do little more than enumerate what I believe to be the most significant economic challenges ahead:

The first is to achieve a basic shift in our domestic orientation away from the heavy emphasis we place upon personal consumption and government spending and toward a much greater emphasis upon savings and capital investment. Over the last several years, we have tilted our economy too far in the wrong direction so that we have had the worst record of capital investment among the major industrialized nations of the Free World. Our emphasis upon consumption and government spending must be held to blame, as must the deteriorating state of corporate profits. As a result of our poor performance, we have also had one of the lowest records of productivity growth among the major industrialized nations. It bears repeating to every audience that only by increasing productivity can we also raise the standard of living.

Looking ahead, if we are to realize our hopes for an expanding economy, increased productivity, and a higher standard of living, our best estimate is that the amount of capital investment over the next decade will have to be three times as large as it has been in the last decade. To achieve that goal, we must ensure that the Federal budget does not preempt the savings required. We must achieve sweeping changes in our overall domestic policies, and we must see that our tax laws encourage greater savings and capital formation. The Administration is now studying a variety of tax proposals, and we expect to send a package of recommendations to the Congress later this year. It is our hope that as Congress considers these problems it will undertake a full-scale public review of our treatment for capital gains, the integration of corporate taxes that has occurred in other countries, and a variety of other measures.

A second great challenge lying ahead is to curb the enormous growth in government spending and roll back the tide of government regulations that now engulf almost every aspect of our private enterprise system. The irresponsible governmental policies of the past led us straight down the primrose path, and we must be vigilant in avoiding that course in the future. The public is not yet fully aware of how much economic damage has been caused in Washington, but I think the message is beginning to get through.

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A <u>third</u> great challenge is to develop much greater self-sufficiency in energy. We must undertake a drastic restructuring of our governmental policies and create an economic environment that will encourage the investment of as much as $1-trillion in energy development before 1985. Judging from the recent performance by some members of this Congress -- the gross delays and shillyshallying that have characterized the last few months -- this will be an exceedingly difficult job.

A <u>fourth</u> challenge that I would suggest tonight is in our foreign economic policy: with interdependence now a reality, we must be strong and innovative in working with other nations to create more effective approaches to the problems of energy, food and international finance. Working with other major industrialized nations, we have achieved significant progress since last year in formulating a cooperative response to the problems posed by the oil cartel. We want to continue that progress, while also seeking better international understanding on issues such as exchange rates and economic development. Yet, let us recognize at the same time that the greatest contribution we can make to a stable world -- indeed, the single most important element in our international economic policy -- is to maintain a strong, noninflationary policy here at home.

A <u>final</u> challenge -- and one that is the most crucial to the preservation of our personal liberties -- is to preserve and strengthen the free enterprise system in this country. Private enterprise is under heavier attack today than at any time in this century. The distrust and suspicion that stains our national institutions, ranging from the halls of government to our places of worship, is directed most forcefully at American business. There can be no doubt that free enterprise is on the defensive here and abroad, and the hour for saving it -- and our personal freedoms as well -- has grown very late, indeed.

<u>Myth #3: The Government Can Solve All Our Problems</u>

My fear is not that we lack the capacity to solve our problems but that in our eagerness to supply instantaneous economic gratification to every group that promises a few votes, we will succumb to a third myth -- that whatever the problems may be, the government can and should provide the answers.

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In view of their lack of confidence in business, it is not surprising that people should now look to the government for the solutions to our economic problems. Moreover, over the past 40 years, we have turned more and more to the government for the answers, gradually trading away our economic and some of our personal freedoms in exchange for false promises of security.

I say to you that it's time to stand up and fight for free enterprise in this country. It's time to fight for responsible government policies that will create an environment in which prosperity and personal freedom can be united once again. And it's time to say "no" to the habits of the past and to the mischievous, misguided policies that would only make matters worse:

-- No to the mandatory credit allocation schemes that would block the free flow of money and credit in our society;

-- No to subsidies, tariff quotas, and other forms of protection that turn companies into wards of the State;

-- No to national economic planning boards that would monitor and then direct private economic decision;

-- No to stringent new controls on pollution that would rekindle inflationary pressures without contributing appreciably to public health;

-- No to fancy new spending programs that will add to the Federal deficit and will grow in perpetuity, but will ultimately fail in their essential purpose.

-- No to the continuing growth of Federal regulations that encroach upon both freedom and the prosperity of private industry at a significant cost to the consumers.

Instead, let us say "yes" to:

-- Greater personal initiative and self-reliance;

-- Greater industrial innovation;

-- Greater savings and capital investment;

-- Greater productivity;

-- And most of all, yes to greater personal and economic freedom.

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Please do not misunderstand me. I do not mean to denounce every phase of governmental activity. I believe there are many vital functions that only the government can perform, and that the government should and must provide positive leadership in meeting our economic and energy challenges. But I also believe that the pendulum has swung too far in the direction of a government-directed economy in this country and we now are threatened by those who would destroy what is left of the private sector. In order to regain lasting prosperity, we must strive to correct that balance and release the full energies of our dynamic economic system.

In his first inaugural address, Thomas Jefferson called for "...a wise and frugal government, which shall restrain men from injuring one another, which shall leave them otherwise free to follow their own pursuits of industry and improvements, and shall not take from the mouth of labor the bread it has earned. This," he said, "is the sum of good government."

The world has grown much more complex since that day, but if there were ever a time when we should keep Jefferson's vision before us, it is now. If we have neither the wisdom nor the strength to say "no" to those who offer false security in return for our freedom, if we are unwilling to step forward in defense of free enterprise, then we will set this great nation on the road to a planned economy and the destruction of the system that has given us the highest standard of living and the greatest measure of freedom ever known to man.

Let us recognize that a time of great challenge also represents a time of great opportunity -- the opportunity to realize a goal that should guide every public official in the land. What we must always seek to do is to turn over to our children a land that is better and stronger -- that offers each of our citizens a greater chance for personal and spiritual enrichment -- than the country we have inherited. For in the final analysis, we act not just for our sakes alone, but for our children, who must live with the results of our decisions. Each of us is a trustee of their future.

Thank you.

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Department of the TREASURY NEWS
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FOR RELEASE AT 4:00 PM
FRIDAY, MAY 30, 1975

CONTACT: John P. Plum
964-2615

Sale of Gold by the U.S. Treasury

The Department of the Treasury has requested the General Services Administration (GSA) to conduct on behalf of the Treasury a public auction of approximately 500,000 ounces of gold. The gold will be in bars each containing approximately 250 ounces of gold of a fineness of .995 or better. The auction will be held at 11:00 A.M. on Monday, June 30, 1975, in the GSA office at 7th and D Streets, S. W., Washington, D.C. Sale will be by competitive bids on the so-called "Dutch auction" basis with all successful bidders paying the same price per ounce of gold.

The Treasury reserves the right to reject any or all bids. Bids by or on behalf of foreign governments will not knowingly be accepted.

Formal invitations to bid in the auction will be issued by the GSA within a few days. Bid forms will be mailed to firms or persons on GSA's precious metals mailing lists. All others wishing to receive an invitation to bid should communicate with

General Services Administration
Metals Branch, Office of Stockpile Disposal
2000 L Street, N. W.
Washington, D. C. 20036

Telephone: Area Code 202-634-6522

Additional sales of gold may be made by the Treasury later in the year.

The Treasury last sold gold on January 6, 1975. At that time bids for approximately 754,000 ounces of gold were accepted. The Treasury estimates that the U.S. market received approximately 700,000 ounces of gold bullion through net imports over the last six months in addition to the bullion sold by the Treasury in January and in addition to approximately one million ounces of imports of gold during that period in the form of coins. The Treasury estimates that in the absence of Treasury sales gold imports during the remainder of this year might be on the order of roughly 2-1/2 million ounces of gold bullion plus one million ounces in the form of coins.

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U.S. Treasury Dept.

Press releases.

U.S. Treasury Dept.

AUTHOR

Press releases.

TITLE

DATE LOANED	BORROWER'S NAME	PHONE NUMBER
~~7/14~~	~~Wolkow~~	~~2900~~
~~5/12/44~~	~~[illegible]~~	~~566-5914~~