LIBRARY
NOV9 1977
ROOM 5004
TREASURY DEPARTMEN

Treas.
HJ
10
.A13P4
v.203

U.S. Dept. of the Treasury.

PRESS RELEASES

WS-1004

TO

WS-1105

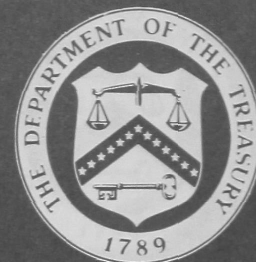
AUGUST 2, 1976

THROUGH

SEPTEMBER 30, 1976

LIBRARY
NOV9 1977
ROOM 5004
TREASURY DEPARTMEN

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE August 2, 1976

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,700 million of 13-week Treasury bills and for $3,700 million of 26-week Treasury bills, both series to be issued on August 5, 1976, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing November 4, 1976			26-week bills maturing February 3, 1977		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.705	5.123%	5.26%	97.244	5.451%	5.68%
Low	98.694	5.167%	5.31%	97.228	5.483%	5.72%
Average	98.698	5.151%	5.29%	97.233	5.473%	5.71%

Tenders at the low price for the 13-week bills were allotted 13%.
Tenders at the low price for the 26-week bills were allotted 28%.

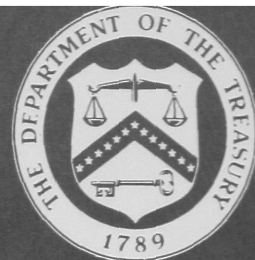
TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 42,060,000	$ 28,060,000	$ 39,280,000	$ 24,080,000
New York	3,560,180,000	2,240,220,000	5,417,690,000	2,887,275,000
Philadelphia	35,275,000	35,275,000	54,535,000	18,655,000
Cleveland	37,510,000	37,210,000	146,070,000	71,670,000
Richmond	21,880,000	21,445,000	41,500,000	26,500,000
Atlanta	31,105,000	31,015,000	15,360,000	11,430,000
Chicago	260,975,000	162,475,000	731,130,000	431,610,000
St. Louis	45,010,000	29,010,000	34,825,000	21,825,000
Minneapolis	41,495,000	20,315,000	45,835,000	14,955,000
Kansas City	24,635,000	24,635,000	32,625,000	29,405,000
Dallas	43,555,000	24,335,000	32,775,000	17,115,000
San Francisco	278,800,000	46,180,000	417,735,000	145,975,000
TOTALS	$4,422,480,000	$2,700,175,000 a/	$7,009,360,000	$3,700,495,000 b/

a/ Includes $323,545,000 noncompetitive tenders from the public.
b/ Includes $154,580,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

WS-1004

he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE WARREN F. BRECHT
ASSISTANT SECRETARY (ADMINISTRATION)
U. S. DEPARTMENT OF THE TREASURY
BEFORE
SENATE COMMITTEE ON BANKING, HOUSING
AND URBAN AFFAIRS

AUGUST 3, 1976

Mr. Chairman and Members of this Committee:

I am pleased to represent the Department of the Treasury in responding to your concerns about employment discrimination in financial institutions and Treasury's role in enforcing Federal law prohibiting such discrimination.

Before presenting my opening statement, I would like to introduce those who are with me today: Mr. David A. Sawyer, Director of the Department's Office of Equal Opportunity Program, and Mrs. Inez S. Lee, Deputy Director of that office. Also with me today are our Regional Contract Compliance Managers: Joseph F. Leahy, New York; Joseph F. Nash, Washington, D. C.; George H. Fisher, Chicago; William G. Thomas, Los Angeles; Kenneth G. Patton, Houston; and Millard F. Rutherford, Atlanta.

WS-1005

Introduction and Background

We believe that the conclusions of the recently-released GAO report on the Treasury Department's bank equal opportunity compliance program, together with your July 1 statement, do not reflect the real progress achieved through Treasury's surveillance of financial institutions during the past 8 to 10 years.

By way of background, banks and other financial institutions were not covered by Executive Order 11246 or previous executive orders on non-discrimination until late 1966, at which time the President declared financial institutions "federal contractors" based on their status as federal depositaries and as agents for the issuance and redemption of savings bonds. Treasury's active role in bank compliance began when regulations were issued in November 1967.

From the outset, the Treasury Department has administered its bank compliance program with a small staff. We started with a staff of five in 1968 and even today have only about 40 (including clerical support) to administer a nationwide program covering approximately 4,500 banks.

To carry out a meaningful compliance program with a small staff has required an innovative approach. Frequent, in-depth reviews of large numbers of individual banks simply has not been possible. Accordingly, ours has been primarily an educationally oriented, technical assistance approach, relying

heavily on moral suasion and conciliation to establish affirmative action plans in the banks under our contractual jurisdiction. To get more minorities into the banking industry, and to move both minorities and women up the career ladder into managerial and executive positions, we pushed hard for a strong moral commitment and an emphasis on voluntary compliance by banking executives. To reach as many bankers as possible, we have participated over the years in numerous conferences and seminars sponsored by the American Bankers Association, State Bankers Associations, banking schools, and other groups. By "multiplying" our limited staff in this manner, we were able to reach effectively far more banks than would have ever been possible otherwise.

Stronger Enforcement Emphasis

Despite this emphasis on fostering a high sense of voluntary commitment toward affirmative action, we have recognized the need to place more emphasis on tougher enforcement especially directed toward banks which were recalcitrant about developing affirmative action programs. The need for such an effort, discussed at length in the recent GAO report, had already been recognized in an internal management review of the Office of Equal Opportunity Program. Steps already had been taken to rectify this deficiency. As part of this stronger enforcement approach, Treasury has now issued about 15 show-cause notices to banks whose programs for eliminating employment

discrimination were regarded by us as insufficient and lacking a good faith effort. In all cases we have been able to get these banks to take positive steps and to develop affirmative action plans and conciliation agreements which satisfy our requirements.

Even before we began issuing show-cause notices, in approximately 30 percent of our compliance reviews, letters which could be considered "pre-show-cause" notices were issued where deficiencies were revealed and where corrective action was required. In such cases, banks were requested to rectify these deficiencies within a given period of time. In the great majority of instances, the banks responded in a positive and timely fashion. In the remainder, the banks responded after additional work had been done on our part.

Perhaps there is a philosophical difference, but we at Treasury believe very strongly that our primary mission in this program is to promote equal opportunity in the banks, rather than to withdraw their federal contractual status. We do not hesitate to issue show-cause notices or to impose further sanctions where banks refuse to comply. Yet, if we can achieve our objective without imposing sanctions, we feel we have done our job.

Improvements Already Made

Significant improvements already have been made in the internal management and conduct of our bank compliance program. Most of the improvements recommended by our own internal management review, as well as most of the GAO recommendations, already have been implemented. Some of the more significant improvements include:

-- Strengthening the staff of six regional offices. After a thorough search, we found and hired excellent staff as our new Regional Managers, and then we maximized our delegation of authority to them. We were fortunate in acquiring very able managers, who have had many years of equal opportunity experience and are also proven administrators.

-- Developing and issuing a complete and up-to-date "Contract Compliance Operations Manual" and a "Standard Compliance Review Report Format." Both the Operations Manual and Report Format were developed to assure greater uniformity throughout our regional offices. (The Bureau of National Affairs recently published guidelines and procedures established by the compliance agencies. The Operations Manual was one of only two cited as worthy of publication, and the Report Format was the only one of its type published by them.)

-- Conducting an intensive, week-long seminar for our equal opportunity specialists. This seminar, developed and conducted by the Regional Managers in December 1975, stressed the knowledge of the latest laws and regulations and more rigorous analytical requirements. Again, besides bringing all equal opportunity specialists to the desired level of proficiency and professionalism, we believe this seminar has also assured greater uniformity in applying the EEO laws throughout the banking industry.

-- Instituting a series of quarterly seminars in each region with personnel from the banks which are scheduled to be reviewed during the coming quarter. During these seminars, we try to educate the bank representatives on the latest EEO requirements and the specific information required for an acceptable affirmative action plan. This educational approach has been successful in that the banks can know in advance what is expected of them, and in the process increases the likelihood of their developing an acceptable affirmative action plan or one which requires relatively few changes to be acceptable. This reduces subsequent staff time during on-site reviews and increases our limited staff's productivity.

-- Developing a more complete and meaningful information system to help us identify those banks where we should

concentrate our limited resources in reviewing affirmative action plans and conducting on-site visits.

-- Finally, taking a much stronger enforcement posture by not hesitating to issue show-cause notices where they are warranted. As noted earlier, all of the show-cause notices issued to date have occurred during the past two years.

In summary, we believe that by taking these actions, we have largely rectified past deficiencies, some of which had been noted by the GAO study team and some of which had come out in the course of our own internal review.

Results of Banks' EEO Programs

I think it appropriate at this time to review the banks' EEO accomplishments during the period in which Treasury has had a bank compliance responsibility. Prior to 1968, minority employment in banks was insignificant and women were almost totally in the lower graded positions.

Today, within the universe of just over 1,000,000 employees covered by our compliance program, minority employment has risen from below 40,000 in 1968 to over 164,000 in 1975; for Blacks, the increase went from approximately 22,000 to over 97,000; for Hispanics from approximately 12,000 to over 45,000; and for Orientals from about 5,000 to almost 20,000. Furthermore, minorities rose from 8 percent of the total bank employment to about 16 percent during this period.

Department of Labor studies on penetration of Blacks in the workforce of 11 major industries have indicated that penetration has been greatest in the banking industry. Studies by the Office of Federal Contract Compliance Programs further reveal that parity could be expected by the banking industry by the late 1970's.

Both the Treasury Department and the banking industry recognize that most of the progress to date has been in hiring, and that in the future much greater emphasis must be placed on upward mobility and career development programs for both minorities and women, with goals for increasing the number of minorities and women into the middle and upper management positions. We are particularly concerned about women bank employees, since they have represented the majority of banks' total employment already. As noted earlier, the majority, unfortunately, have been in the lower graded positions.

But progress has occurred in this area. For example, the Bureau of National Affairs reported in its June 15 issue that a survey by the American Bankers Association involving 49 of the country's 50 largest banks indicated that minority and female employment in bank management grew significantly between 1970 and 1975. The ABA figures indicated that the total of minority officers and managers in the covered banks practically doubled during the same period--from 5 percent to 9.3 percent.

Also, the number of women officers and managers nearly tripled--from 7,650 to 19,200, an increase from 15 percent to 26 percent of all bank officers.

Finally, the ABA and a number of its member banks have developed and are continuing to develop a significant number of new programs aimed at improving the employment opportunities for minorities and women. To cite a few examples:

-- Special skills training in reading, writing, math and clerical skills which young people need but which too often minorities do not receive in the public schools.

-- Revamped training programs in the banks to deal with a new kind of workforce, made up of people who are not trained and qualified, but who are trainable and qualifiable, thereby enabling thousands of minority young men and women to enter the working world previously beyond their hopes.

-- Participation in job fairs which have concentrated on recruiting and hiring minorities and women.

-- The efforts some banks have made in setting up recruiting vans which go out into the minority communities not only to hire those who want to work, but to encourage those who have not thought about working at banks.

-- Awareness programs for helping supervisors and managers deal with equal opportunity and minority problems more effectively.

-- Efforts to encourage minority and women employees to participate in the regular bank training programs both in-house, through the American Institute of Banking, and through tuition refund programs, so that they will gain skills development and move up the career ladder.

All things considered, we believe that the banking industry has made significant progress toward achieving equal employment opportunity for all employees over the past eight years. We have been advised by numerous bankers throughout the country that the Treasury program of moral suasion, technical guidance and the more recently tougher enforcement posture have been principal factors leading to impressive changes and evident results.

The GAO Report

The GAO Report goes into considerable detail on the lack of documentation, incomplete records, inordinate lengths of time certain bank reviews remained open, lack of compliance with OFCCP orders, and so on. Without going into a myriad of detailed comments, most of which are covered in our formal response to the report, we do not deny some of the short-comings of the past, especially prior to two years ago when we

began to take significant steps to improve our EEO compliance program, enhance the quality of management and staff, and ensure greater uniformity and professionalism in our work. As I have mentioned already, most of the deficiencies mentioned in the GAO report have been or are being corrected.

I recall, Mr. Chairman, that during 1974 you made a series of positive speeches on the general theme, "What's Right With the Federal Government." Like you, I would like to take the positive approach and focus on the present and future, rather than dwell on the past. We _are_ committed; we are trying to do our best in an area that is fraught with pitfalls and is often a thankless task.

Resources to carry out our work have been a problem. We continue to seek additional budget and personnel; while making some headway, it has certainly been less than I would have liked. Yet, realistically, our bank EEO compliance program, like many worthwhile programs, must compete against one another for the limited resources available. There are probably few programs in Treasury that couldn't use more people and more dollars, were budget restraints not a fact of life. Since I have budgetary responsibility within the Department, I am painfully aware of this process. All budgetary requests simply cannot be honored, and reasonable people can differ on priorities. Having said this, I will

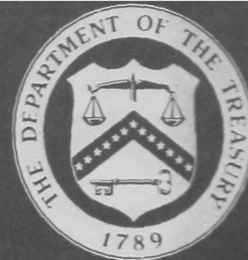
continue to commit the Treasury Department to "do its best with what we've got" in carrying out the equal opportunity compliance responsibilities.

Conclusion

We continue to believe that success should be measured by end results; namely, increased hiring, development and promotion of women and minorities in the banking community. Success is best measured by results, rather than by numbers of show-cause letters or withdrawals of depositary status.

Mr. Chairman, this concludes my opening statement. My associates and I will be pleased to answer any questions you may have.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



Contact: Richard B. Self
Extension: 8256

FOR IMMEDIATE RELEASE
July 30, 1976

TREASURY ANNOUNCES COUNTERVAILING DUTY INVESTIGATION ON IMPORTS OF UNWROUGHT ZINC FROM SPAIN

Assistant Secretary of the Treasury David R. Macdonald announced today a formal notice of investigation and receipt of countervailing duty petition with respect to imports of unwrought zinc from Spain. This action will be published in the Federal Register of August 2, 1976.

Under the U.S. Countervailing Duty Law (19 USC 1303), the Secretary of the Treasury is required to assess an additional (countervailing) duty that is equal to the amount of the bounty or grant that has been found to be paid or bestowed on the imported merchandise. This action is taken pursuant to allegations by the American Lead-Zinc Institute that the Spanish Government, by rebating the desgravacion fiscal tax on export, provides a bounty or grant on exports of unwrought zinc. A preliminary determination on this case must be reached by no later than December 17, 1976. A final determination must be issued by June 17, 1977.

Imports of zinc from Spain totaled approximately $18 million in 1975.

* * *

WS-1006

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR RELEASE UPON DELIVERY

STATEMENT OF DAVID R. MACDONALD
ASSISTANT SECRETARY (ENFORCEMENT, OPERATIONS, AND TARIFF AFFAIRS)
DEPARTMENT OF THE TREASURY
BEFORE THE TRADE SUBCOMMITTEE
HOUSE WAYS AND MEANS COMMITTEE
ON H.R. 9220
AUGUST 3, 1976

Mr. Chairman and Members of the Committee, I am David R. Macdonald, Assistant Secretary (Enforcement, Operations, and Tariff Affairs), Department of the Treasury. My responsibilities include supervision of the Customs Service. I would like to thank you, Mr. Conable, and the Committee for the invitation to discuss H.R. 9220, the Customs Modernization and Simplification Act.

As the title of the bill implies, the proposals contained within it were designed to give to U.S. Customs the necessary flexibility to adapt and grow with the international business community of today.

The primary objective of the Customs Modernization and Simplification legislation package is to build flexibility into the customs laws by permitting the Customs Service to modernize and simplify procedures and thus (1) increase the productivity of the customs work

force by simplifying procedures in order to handle the continuing increases in workload, (2) speed-up 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 customs laws are enforced more thoroughly and equitably.

The bill is divided into three major titles. Title I would allow Customs to institute up-to-date business methods and adapt accepted financial practices in conjunction with computerized techniques to the processing of importations. As a necessary adjunct, the proposed legislation would establish importer recordkeeping requirements and strengthen the authority of customs officers to inspect importers and others with respect to customs-related books and records. Customs would then have better means to insure compliance with customs laws, which, heretofore, have often been circumvented. Basically, the major provisions of Title I would provide Customs with the same capability to select, process and audit entries and importer/brokers that the Internal Revenue Service has had for years with regard to tax returns and tax payers. We realize that administration of the Tariff Act differs

from the administration of the Internal Revenue Code. Proper enforcement of duties, quotas and other customs requirements necessitates the physical inspection of goods, which is not necessarily true of income tax administration. Therefore, if the Customs Modernization Act becomes law, the inspection of physical goods entering into the country will continue, and in addition, Customs will be able to concentrate more on those items in which a high incidence of violations has been found.

Specifically, the bill would permit the Secretary of the Treasury or his delegate to prescribe regulations requiring records to be kept by importers and the period they are to be retained; to provide for the filing of a "return" to cover all merchandise imported by a consignee during a designated period in lieu of the filing of a separate entry for each shipment made during the period; and to permit an alternative method for the payment of duty where a person has qualified to file a periodic return. It would also provide broadened authority to examine records of importers and others to compel their production by administrative or judicial means.

Title II of the proposed legislation is a pot pourri of amendments to the Tariff Act and related laws, for the purpose of facilitating the processing of international

travelers and low value importations and to introduce greater flexibility into the law which would result in cost-saving efficiencies. Some of these provisions are: (1) An amendment to the Tariff Schedules of the United States (19 U.S.C. 1202) to provide for a flat rate of duty of 10 percent on dutiable articles for personal use, valued not over $500 fair retail value, accompanying a returning resident arriving in the United States. (2) A provision eliminating certain archaic provisions such as those which require the filing of forms and the payment of a ten-cent entrance and clearance fee. (3) An amendment to change from less than $3 to less than $10 the limit in the duties or taxes which the Secretary of the Treasury is authorized to disregard; and to change from $10 to $25 the limit on the value of articles sent as bona fide gifts and as accompanying baggage which may be admitted free of duty and tax, and to change from $1 to $5 the limit in any other case. (4) An amendment to create for the holder of an endorsed airway bill accompanying merchandise imported by air transportation the same presumption (i.e., that he is the intended consignee of the merchandise) accorded to the holder of an endorsed maritime or rail bill of lading under the Tariff Act of 1930. (5) An amendment to increase from $250 to $500 the informal entry monetary limit. (6) An amendment to expand the use of informal

entry procedures to certain articles imported solely for household or personal use or as bona fide gifts by the importer. (7) An amendment to permit Customs officers, at their discretion, to determine when the examination of packages may be waived.

Also, the bill would amend section 491 of the Tariff Act of 1930, as amended (19 U.S.C. 1491), to authorize the disposal of distilled spirits, wines, and beer forfeited summarily or by order of the court, at a public competitive bid sale. Forfeited liquor must now be disposed of by delivery to a Government agency, gifts to eleemosynary institutions, or destruction.

Further, this title would exempt from trademark restrictions merchandise purchased for personal use which accompanies returning residents. This provision is designed to obviate the situation that arises when a traveler buys goods abroad, then finds that exclusive licensees in this country can exclude his goods or force him to obliterate the trademark when he returns.

The bill would also provide for a monetary penalty as an alternative to seizure of merchandise transported in violation of the coastwise laws by amending section 27 of the Merchant Marine Act of 1920, as amended.

Finally, Title II of the bill would add a new section

589 to the Tariff Act of 1930 which would grant the same arrest authority to officers of the Customs Service which has been granted to officers of the Immigration and Naturalization Service.

Title III of the bill would amend section 641 of the Tariff Act of 1930, to modernize the procedures for licensing and regulating Customs brokers. The bill would establish a national license for Customs brokers, improve the quality of supervision exercised by the Customs broker over his business, protect the importer by requiring the broker to post a performance bond, provide the United States Customs Service with greater supervisory control over the activities of Customs brokers in certain instances, and modernize the disciplinary hearing procedures by substituting an independent hearing examiner for the Customs officer who now presides over such hearing.

Mr. Chairman, some opponents of this bill, principally the Customhouse brokers, have accused Customs of supporting this bill in order to create work for itself. Believe me, Mr. Chairman, we have enough to do. Customs enforces over 400 different laws at the borders of the United States for over 40 different agencies. Since 1950, Customs workload has expanded far in excess of its work force. While entries have risen 336%, vehicles 236%, persons 199%, and

aircraft 409%, the number of Customs employees has risen 52%. We are not looking for more work, and we do not think the importer is looking for more forms and complexities which are passed on to the customer as increased cost, nor is the U.S. traveler eager to be delayed any more than he now is when returning to this country. It was out of our desire to relieve ourselves of this legislatively imposed burden that inspired us to ask you and Mr. Conable to sponsor this bill.

Finally, Mr. Chairman, I cannot close my testimony without commenting briefly upon discussions we have had with various segments of the import community. When the Customs Modernization and Simplification Act was first proposed, we heard from a number of different groups which adamantly proposed that Section 592 of the Tariff Act of 1930 be amended in favor of the importing community. As you know, Section 592 provides for either the forfeiture of merchandise or the assessment of a penalty equal to the value of such merchandise as to which a false entry has been filed with the Customs Service, even when the inaccurate entry is only a result of negligence. Section 618 of the same Act then goes on to allow the Customs Service to mitigate the penalty upon application by the importer. This provision can be extremely onerous in that it creates, before mitigation

is completed, a contingent liability which is far in excess of the likely penalty which will ultimately be assessed.

After discussing this matter with a number of interested groups, many of which proposed totally unrealistic amendments which would have gutted Treasury's power effectively to enforce the payment of Customs duties, the Treasury Department sat down and outlined those principles which, when the modern audit capability contained in the Customs Modernization Act has been authorized by Congress, may govern the modification of Section 592.

My purpose in raising this matter at this hearing, Mr. Chairman, is first to assure you that the Treasury Department has not "negotiated with" or "approved" any amendment to the Customs Modernization Act. Nevertheless, since we are aware of the immense time pressures placed upon this Subcommittee by reason of tax legislative hearings and other matters, we attempted to rationalize the views of responsible opposing interests without thereby intending to preempt your function and responsibility to hold hearings and make legislative decisions in the public interest. No discussions have been held by me with any group, other for the purpose of attempting to find the best possible solution to some very difficult problems in

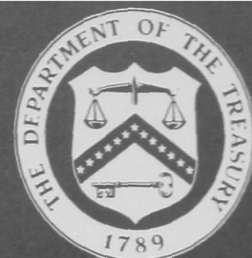
the importation process while protecting the interest of the Treasury Department and the public in assuring collection of the revenue and protection of consumers.

We at the Treasury Department and the Commissioner and his staff at the Customs Service have worked long and hard in examining the entire breadth of Customs laws and procedures with a view towards weeding out the useless, weaving together the inconsistent, preserving while refining and updating the necessary, and formulating the new. We are confident that the end product which lies before you not only would bring Customs into the modern era of international commerce but would construct a framework and allow the breathing space for Customs procedures to grow with and adapt to the future.

I would be pleased to answer any questions now or following the statement of the Commissioner of Customs, Vernon D. Acree.

oOo

he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE
A.M. Papers, Tuesday, August 3

RISE IN INTERNATIONAL LENDING BY U.S. BANKS SLOWS

New international lending by United States banks is expected to rise by $11 billion, or 11 percent in 1976, as against $15 billion or 18 percent in 1975, according to Treasury's annual "Outlook for International Lending by U.S. Banks," released today.

The study indicates that a major reason for the more modest increase in lending volume currently foreseen is the low level of demand from borrowers in the stronger industrial nations. It reports that bankers are exercising caution in expanding their portfolios of higher risk loans, but reveals that senior officers remain confident about the soundness of their outstanding credits and do not expect any significant losses on loans to developing countries.

Gerald L. Parsky, Assistant Secretary for International Affairs, noting this development in releasing the study, said: "The expected increase in foreign loans this year, although below the rise recorded in 1975, nevertheless represents a substantial contribution to the financing needs of countries facing current account deficits."

The survey covers the prospective magnitude of international lending this year, while reviewing the major constraints on lending activity, terms and conditions of loans, and the geographical direction of lending. It projects most of the expansion in international lending in Western Europe, Japan, and the more mature developing countries of Latin America and the Far East.

In looking at the terms and conditions on which loans are being extended, the survey finds a general widening of spreads in interest rates for countries which have borrowed heavily, along with the inclusion of special fees, and a tendency toward shorter average maturities.

WS-1008

The increase in short-term trade financing, associated with the strong recovery of world trade volume, appears to be a further factor in reducing the attractiveness of longer term sovereign risk loans in some areas.

"The additional volume of financing provided by the private banking sector will be a major supplement to other private and official channels in helping countries meet their financial needs as they undertake adjustments in their domestic economic policies," Assistant Secretary Parsky stated.

o0o

Outlook for International Lending by U.S. Banks
1976
Summary

Lending Estimates

The volume of net international lending by U.S. banks in 1976 (from domestic offices and foreign branches combined) is likely to be determined less by the availability of loanable funds than by the level of demand from low risk borrowers. Interviews with senior officers of major American banks conducted by members of the Treasury staff suggest that the demand for credit from customers in the countries which are financially strong has been essentially flat or even declining and that loan demand has been strong only in developing countries and some of the smaller industrial nations. Thus the expectations of bank officials would point to new international lending of about $11 billion during 1976. This would be an increase of around 11%, compared to an increase of about $15 billion, or 18%, in 1975.

This estimate is, of course, tentative and could change as bankers adapt their lending policies to changes in economic and financial conditions. This projection may underestimate the actual increase in U.S. foreign lending this year judging from the somewhat higher rate of lending during the first two months of 1976 and bankers' own expectations of increased business during the fourth quarter. During the early part of 1975, bank officers foresaw an increase of about $9-10 billion in new foreign loans, but actually increased their lending by $15 billion, partially to compensate for weaker than expected domestic loan demand. While the strong expansion in the U.S. economy has not yet been reflected in increased domestic loan demand, we would expect loan demand to pick up as the expansion proceeds. In addition, a concern about a possible resurgence of inflation in the U.S. could lead to a tightening of monetary policy and a reduction in aggregate credit availability. The result of both these phenomena could likely be some reduction, at the margin, in the growth of U.S. bank lending to foreigners. However, the magnitude of these effects should not be exaggerated. Of much more importance in determining the level of credit availability for foreign borrowers will be such factors as relative returns on different kinds of loans, country limits and assessments of creditworthiness.

Terms and Conditions

Despite the slowdown in demand from industrial country borrowers, the present expectation is that in 1976 banks will continue to exercise greater selectivity in the choice of borrowers with a widening of interest spreads and a tendency toward shorter loan maturities for higher-risk countries. The interest spread on loans to some of the more mature developing countries, which have borrowed heavily, is edging up from 1 3/4% to 1 7/8% over the London Interbank Offer Rate (LIBO) while bankers are requiring minimum spreads of 2% over LIBO on even very short-term trade credits to countries considered marginal borrowers. While most bankers interviewed intended at least to maintain their outstanding loans in non-oil develping countries at current levels, they would prefer to shorten the average maturity of their loan portfolio as opportunities to do so arise. Bankers continue to have a strong preference for a maximum term of five years, but are willing to go up to seven years on project loans with secured repayment provisions.

Choice of Borrowers

Bankers are generally being more selective in their lending. They have been maintaining their outstandings at current levels in some countries and increasing only their very short-term exposure in a number of others. In general, the countries to which they would like to increase their outstanding loans have not been seeking additional funds. The geographical pattern of bank lending this year will be influenced not only by concerns about creditworthiness, but also by the strength of economic recovery and world trade growth with its concomitant short-term trade finance. In other words, the almost natural increase in trade financing associated with this recovery seems likely to be a further factor in reducing the attractiveness of longer term sovereign risk loans in some geographical areas. The particularly strong increase in trade volume expected among OECD countries (now estimated to be over 10%) suggests that much of the increase in short-term lending will be directed to these countries. Indeed, U.S. bankers indicated that they saw Western Europe and Japan as the primary areas for the expansion of their international activity in 1976. They also expect to increase credits to several of the major Latin American countries and to a number of Far Eastern nations.

I. International Lending by U.S. Banks in 1975

Outstanding foreign credits extended through U.S. banks (which includes U.S. domestic offices and foreign branches as well as agencies and branches of foreign banks in the U.S.) increased from $83 billion at the end of 1974 to $97.9 billion at the end of 1975--a total increase of $14.9 billion or about 18%. This compares to an increase of $26.6 billion or 47% in U.S. foreign lending during 1974. These data, adjusted to exclude interbank placements of funds, are shown in Table I.

It is not possible to trace the direction of U.S. foreign lending for the entire calendar year 1975. While Treasury figures give the geographical distribution of lending from domestic offices, data on the country breakdown of credits from foreign branches--which accounted for most of the increase in U.S. foreign loans during this past year--are available only from end-September, 1975, under the Federal Reserve's new reporting system. Although published figures are available only for the fourth quarter of 1975 and are not fully adjusted to exclude interbank placements, they nonetheless provide a useful indication of the direction of new lending as well as the total exposure of U.S. banks in particular countries.

As compiled in Table II, the data indicate that loans to Western European countries account for over 45% of total U.S. foreign lending, followed by Latin America (26%) and Asia (22%). During the fourth quarter of 1975, U.S. banks and their foreign branches increased their claims on non-U.S. residents by nearly $11.5 billion or 6.6%, for a year-end figure of $184.2 billion. The proportionate increase in broad geographical areas roughly corresponds to the distribution of U.S. banks' total loan portfolios by area. U.S. banks increased their loans and credits to European borrowers by some $4.4 billion or 5.6%, with the largest amounts extended to France (nearly $1.5 billion, an increase of over 19%) and to Germany ($803 million or 13%). Loans and credits to Latin America countries rose by $3.6 billion, principally going to Brazil ($1.2 billion, a 16.4% increase) and Mexico ($887 million, a 11.5% increase). New lending to Asian nations grew by $2.6 billion (7.2%) including an increase of $1.7 billion in loans to Japan (8.8%), while loans and credits to Africa rose by $418 million (8.4%).

II. Outlook for International Lending in 1976

Senior officers of U.S. banks indicate that they expect new international lending in 1976 to be below the increase recorded in 1975. There appears to be ample capacity for a greater expansion since

most banks were not able to reach targeted rates of growth for either domestic or foreign loans during 1975. The chief problem, however, will be to match credit availability with suitable borrowers. Bankers reported that a large proportion of first quarter loan demand came from developing countries and indicated that they were exercising caution about expanding their portfolio of higher-risk loans. It should be stressed, however, that bankers did not express concern about the possibility of significant losses on loans to developing countries in 1976. As a result of their greater selectivity in lending to developing countries and weak loan demand from customers in the stronger industrial nations, bankers now expect to increase their international lending in 1976 by only about $11 billion. This would increase the volume of outstanding loans by about 11% and amounts to only about two-thirds of the $15 billion in new credits extended during 1975.

As the experience of last year suggests, bankers retain considerable flexibility in adjusting their international loan allowables upward. If domestic loan demand does not pick up during the course of the year, bankers may seek more aggressively to expand their international loan portfolios in an effort to reach targeted growth rates of overall assets and earnings. On the other hand, a strong revival of demand from domestic customers could serve to "crowd out" some potential foreign borrowers. This phenomenon could be accentuated if concern about the possibility of renewed inflation leads to a general tightening of monetary policy and credit conditions in the U.S. It is difficult to quantify the magnitude of these effects. Of greater importance in determining the volume of foreign lending will be such considerations as relative returns on different types of loans, assessments of creditworthiness and country limits.

Loan Terms and Conditions

In response to sluggish loan demand in the U.S. and abroad, U.S. banks have been actively competing for low-risk short-term credits to foreign borrowers. As a result, spreads on short-term loans have fallen to 1% over LIBO and in many cases to as low as 3/4% or even 1/2% for prime borrowers. Weak loan demand from the most attractive industrial country borrowers has also produced downward competitive pressure on interest rates on term loans. U.S. bankers report that spreads on longer term loans to prime developed country borrowers have declined to 1 1/8 to 1 1/4% for the five to seven year maturities in comparison to a minimum spread of 1 1/2% over the six months LIBO in 1975. Bankers do expect, however, that spreads will widen as domestic and industrial country demand picks up in the course of the year.

A number of banks find that they are approaching their country limits in some developing countries. As a result of their high exposure, growing external debt levels of most developing countries and persistently high demand, loan conditions for LDC's at some banks have stiffened. While a few term loans to the more developed OPEC countries--particularly Iran and Venezuela--have been extended at 1 1/2% or even 1 3/8%, most loans to developing countries have minimum spreads of 1 3/4 to 2% over LIBO. The interest spreads on loans to the more mature developing countries which have borrowed heavily, such as Brazil, are edging upwards to about 1 7/8 or even 2% at present. On loans to other eligible developing countries, such as South Korea and Taiwan, whose external indebtedness has grown considerably, banks are requiring spreads of 2% over LIBO. For those countries considered marginal borrowers--such as Iraq and Egypt--even short-term trade credits have been priced very stiffly at spreads of 2 to 2 1/2% over LIBO. On many loans to developing countries, bankers have been adding on front-end, commitment or other fees to bring the effective yield to more than 2-1/2%. These rates refer to loans to governments or guaranteed by governments or central banks. Loans to private borrowers which do not have a government guarantee run higher, and in the case of Brazil have reached spreads of 2 1/2% to 4% over LIBO for relatively short maturities.

Along with the widening of interest margins, banks are also attempting to reduce the maturities of their loans to developing countries. Thus although most bankers interviewed intended to maintain or increase their outstandings in non-oil LDC's, they will be tending to reinvest the proceeds of maturing loans primarily at short-term. With the strong revival of the U.S. and Eurobond markets, term loans to corporate borrowers in developed countries have declined.

Bankers prefer to limit their term loans to the five year maturities, and are in fact avoiding term loans in favor of short-term financing in the case of several of the developing countries. While a few seven year credits have been extended under pressure from customers, bankers do not foresee any general lengthening of loan maturities.

Direction of Lending

U.S. bankers view Western European as a primary area of the expansion of their international activity in 1976. As business activity continues to pick up, a number of bankers expect to increase their lending to Germany. Lending to France, which rose strongly during 1975, is expected to continue to increase this year. A number of bankers expressed interest in expanding their

loans to Spain, where loan demand reportedly is very high. While American bankers are continuing to watch developments in Portugal carefully, several were interested in expanding their credits this year.

A number of bankers expressed interest in increasing their loans to selected Eastern European countries this year, particularly to Yugoslavia, Romania and Poland.

Among Latin American countries, most bankers interviewed expected to increase their lending most significantly in their two largest markets, Mexico and Brazil. Following Argentina's recent change of government, bankers expect to increase modestly their loans to Argentinian borrowers this year. Bankers are actively seeking to expand their positions in Venezuela.

The Far East is an area in which U.S. bankers have substantial positions and in which they anticipate that much of their planned 1976 loan growth will take place. Japan is their largest Far Eastern market and although some banks are approaching country limits, most anticipate an increase in lending to Japan as loan demand increases. Bankers also continue to view S. Korea, the Philippines and Taiwan favorably and expect to increase their credits to these three countries this year. Some cautious loan expansion is expected in Indonesia. Credits to Thailand, Malaysia and Singapore will probably also continue to increase.

TABLE I

Claims on Non-Bank Foreigners Reported by Banks in the U.S. and their Foreign Branches

(In millions of dollars)

Date	U.S. Offices 1/	Foreign Branches 2/	Total	Monthly Amount	Monthly %	Quarterly Amount	Quarterly %	Annual Amount	Annual %
12/72	16,342	24,026	40,368						
12/73	19,948	36,429	56,377					+16,009	+39.7
12/74	32,131	50,870	83,001					+26,626	+47.2
1/75	32,752	51,385	84,137	+1,136	+1.4				
2/75	33,328	52,580	85,908	+1,772	+2.1				
3/75	34,290	53,807	88,097	+2,189	+2.5	+5,097	+6.1		
4/75	34,053	54,461	88,514	+ 417	+ .5				
5/75	34,572	55,189	89,761	+1,247	+1.4				
6/75	33,450	55,936	89,386	- 375	- .4	+1,289	+1.5		
7/75	34,108	55,633	89,741	+ 355	+ .4				
8/75	34,383	56,458	90,841	+1,100	+1.2				
9/75	34,371	56,653	91,024	+ 183	+ .2	+1,638	+1.8		
10/75	36,357	58,159	94,516	+3,492	+3.7				
11/75	36,607	58,266	94,873	+ 357	+ .4				
12/75	37,873	60,006	97,879	+3,006	+3.1	+6,855	+7.5	+14,876	+17.9
1/76p	38,057	61,195	99,252	+1,373	+1.4				
2/76p	38,372	61,397	99,769	+ 386	+ .4				

1/ Compiled by adding totals of Tables CM-II-1 and CM-II-IV, less claims on banks, Treasury Bulletin, March and April 1976 and less branches' liabilities to parent bank from Table 19(b), p. 71, Federal Reserve Bulletin, April 1976.

2/ Compiled by adding claims on official institutions and non-bank foreigners, from claims on foreigners in all foreign countries and currencies, Federal Reserve Bulletin, April 1976, and unpublished Federal Reserve data.

p. Preliminary

TABLE 2. GEOGRAPHICAL DISTRIBUTION OF CLAIMS ON FOREIGNERS REPORTED BY U.S. BANKS AND THEIR MAJOR FOREIGN BRANCHES
(in millions of dollars)

Country	September 1975				December 1975				Change: September to December, 1975			
			Total				Total				Total	
	Domestic Offices 1/	Foreign Offices 2/	Amount	Percent Distribution	Domestic Offices 1/	Foreign Offices 2/	Amount	Percent Distribution	Domestic Offices	Foreign Offices	Amount	Percentage Change
Europe	7,279	71,144	78,423	45.3	8,496	74,351	82,847	45.0	1,217	3,207	4,424	+5.6
Belgium-Luxembourg	451	5,630	6,081	3.5	298	5,226	5,524	3.0	-153	-404	-557	-9.2
France	798	6,696	7,494	4.3	1,298	7,648	8,946	4.9	500	952	1,452	+19.4
Germany	337	5,845	6,182	3.6	315	6,670	6,985	3.8	-22	825	803	+13.0
Italy	337	4,361	4,698	2.7	351	4,834	5,185	2.8	14	473	487	+10.4
United Kingdom	3,246	34,506	37,752	21.8	4,152	34,253	38,405	20.9	906	-253	653	+1.9
Other Western Europe	1,632	11,057	12,689	7.3	1,626	12,415	14,041	7.6	-6	1,358	1,352	+10.7
U.S.S.R.	168	491	659	0.4	178	596	774	0.4	10	105	115	+17.5
Other Eastern Europe	310	2,558	2,868	1.7	278	2,709	2,987	1.6	-32	151	119	+4.1
Canada	2,870	1,714	4,584	2.7	3,049	1,357	4,406	2.4	179	-357	-178	-3.9
Latin America	17,543	27,299	44,842	26.0	19,824	28,589	48,413	26.3	2,281	1,290	3,571	+8.0
Argentina	1,126	814	1,940	1.1	1,188	753	1,941	1.1	62	-61	1	+0.1
Brazil	1,912	5,198	7,110	4.1	2,712	5,565	8,277	4.4	800	367	1,167	+16.4
Chile	485	120	605	0.4	440	69	509	0.3	-45	-51	-96	-15.9
Colombia	493	684	1,177	0.7	478	549	1,027	0.6	-15	-135	-150	-12.7
Mexico	2,453	5,227	7,680	4.4	2,468	6,099	8,567	4.7	15	872	887	+11.5
Panama	691	1,973	2,664	1.5	889	2,158	3,047	1.7	198	185	383	+14.4
Peru	471	619	1,090	0.6	525	704	1,229	0.7	54	85	139	+12.8
Venezuela	1,253	1,055	2,308	1.3	1,134	1,205	2,339	1.3	-119	150	31	+1.3
Other Latin America	8,658	11,609	20,267	11.9	9,990	11,487	21,477	11.5	1,332	-122	1,210	+6.0
Asia	15,263	20,834	36,097	20.9	16,023	22,688	38,711	21.9	760	1,854	2,614	+7.2
China (Taiwan)	834	623	1,457	0.9	970	756	1,726	0.9	136	133	269	+18.5
Hong Kong	239	2,021	2,260	1.3	247	1,495	1,742	0.9	8	-526	-518	-22.9
India	53	163	216	0.1	53	163	216	0.1	0	0	0	0
Indonesia	182	1,072	1,254	0.7	217	1,346	1,563	0.8	35	274	309	+24.6
Japan	9,566	9,522	19,088	11.0	10,098	10,669	20,767	11.4	532	1,147	1,679	+8.8
Korea (South)	1,691	718	2,409	1.4	1,725	813	2,538	1.4	34	95	129	+5.4
Philippines	390	1,095	1,485	0.9	423	1,225	1,648	0.8	33	130	163	+11.0
Singapore	193	3,050	3,243	1.9	341	3,460	3,801	2.1	148	410	558	+17.2
Thailand	438	271	709	0.4	448	283	731	0.4	10	12	22	+3.1
Middle East oil-exporting Countries	694	1,671	2,365	1.4	553	1,795	2,348	1.3	-141	124	-17	-0.7
Other Asia	983	628	1,611	0.9	925	683	1,608	0.9	-58	55	-3	-0.2
Africa	1,565	3,406	4,971	2.9	1,705	3,684	5,389	2.9	140	278	418	+8.4
African oil-exporting countries	218	424	642	0.4	288	480	768	0.4	70	56	126	+19.6
Other Africa	1,347	2,982	4,329	2.5	1,417	3,204	4,621	2.5	70	222	292	+6.7
All Other Countries	699	3,119	3,818	2.2	835	3,580	4,415	2.4	136	461	597	+15.6
GRAND TOTAL	45.219	127.516	172.735	100.0	49.932	134.269	184.201	100.0	4.713	6.753	11.466	+6.6

1/ Excludes loans to unaffiliated foreign banks; includes claims on banks' own foreign branches.

2/ Includes claims on other banks, except on branches of the same U.S. parent bank.

he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR RELEASE AT 4:00 P.M. August 3, 1976

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 $6,500 million , or thereabouts, to be issued August 12, 1976, as follows:

92-day bills (to maturity date) in the amount of $2,700 million, or thereabouts, representing an additional amount of bills dated May 13, 1976, and to mature November 12, 1976 (CUSIP No. 912793 B9 6), originally issued in the amount of $3,602 million, the additional and original bills to be freely interchangeable.

182-day bills, for $3,800 million, or thereabouts, to be dated August 12, 1976, and to mature February 10, 1977 (CUSIP No. 912793 E5 1).

The bills will be issued for cash and in exchange for Treasury bills maturing August 12, 1976, outstanding in the amount of $6,505 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,354 million. 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, August 9, 1976. 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

WS-1009

(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.

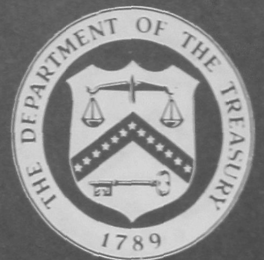
Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, 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 $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 August 12, 1976, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 12, 1976. 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.

oOo

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE August 3, 1976

RESULTS OF AUCTION OF 3-YEAR TREASURY NOTES

The Treasury has accepted $2,002 million of $5,405 million of tenders received from the public for the 3-year notes, Series J-1979, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	6.88%	1/
Highest yield	6.92%	
Average yield	6.91%	

The interest rate on the notes will be 6-7/8%. At the 6-7/8% rate, the above yields result in the following prices:

Low-yield price	99.987
High-yield price	99.880
Average-yield price	99.907

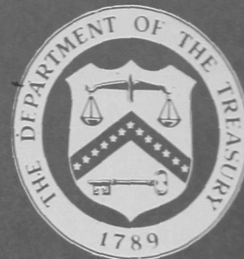
The $2,002 million of accepted tenders includes 18% of the amount of notes bid for at the highest yield and $ 673 million of noncompetitive tenders accepted at the average yield.

In addition, $920 million of tenders were accepted at the average-yield price from Government Accounts and Federal Reserve Banks for their own account in exchange for notes maturing August 15, 1976, ($700 million) and from Federal Reserve Banks as agents for foreign and international monetary authorities for new cash ($220 million).

1/ Excepting 1 tender of $300,000

WS-1010

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE UNION LEAGUE CLUB OF NEW YORK
AUGUST 5, 1976

It is both an honor and a real personal pleasure to address this distinguished audience and to be among so many old friends again.

The Union League Club of New York stands for fundamental values of loyalty and dedication and good citizenship which are needed today more than ever. Over a hundred years ago, at a time of national crisis, your founders outlined the objectives that have guided you ever since:

* "To dignify politics as a pursuit and a study;

* "To reawaken a practical interest in public affairs in those who have become discouraged," and

* "To enforce a sense of the sacred obligation inherent in citizenship."

And so your organization has fought the good fight against slavery, against denial of the right to vote, against Tammany Hall, and many of you are fighting today against other wrongs in our society and standing foursquare behind the things that are right about America.

I know that each of us here shares a common concern about the future and the continued growth of the remarkable and dynamic economic system that has given our people the highest living standards and the greatest prosperity known to man. And it is clear that unless the American people rally behind the principles that underlie this system, our steps will falter. Because far more is involved than the survival of a few companies, or a few jobs, or whether the price of beef goes up or down over the next few months. What is at stake is the very survival of our economic freedoms and, along with them, our personal and political freedoms as well.

Abraham Lincoln, in talking about our nation's founders during the Civil War, said, "Surely each man has as strong a motive now to preserve our liberties as each had then to establish them."

The same holds true today. Our system, while not perfect, has given Americans the blessings of both liberty and abundance. That system will continue to be true to us so long as we are true to it. This means that every citizen has the duty to ensure that our elected officials pursue sane and solid and responsible policies that will promote our economic stability and assure durable growth.

That is why I believe the election of 1976 is one of the most important in our history -- certainly the most important in my lifetime. Why do I say that? Because, the decision the American people make this year at the polls will determine not only our nation's course for the next four or eight years, but well into the next century. And after all the political speeches have been made, and the editorials written, what that decision will really boil down to is this -- a choice between the freedom for each of us to live our lives as we best see fit, or the surrendering of more of that freedom to an increasingly powerful government in exchange for a false promise of security and permanent prosperity. This theme was best described by Gibbon in his epitaph for ancient Athens. "In the end," he wrote, "more than they wanted freedom, they wanted security. They wanted a comfortable life and they lost it all -- security, comfort and freedom. When the Athenians finally wanted not to give to society but for society to give to them, when the freedom they wished for most was freedom from responsibility, then Athens ceased to be free." That is the issue.

I believe that what this country needs is a political program that is, in Harry Truman's words, a genuine contract with the people, a commitment to more than vague good intentions.

This program does not have to be complicated to be effective. All it requires is an underlying moral commitment to personal freedom and care for those who genuinely need help. This commitment would be linked to four equally explicit goals:

* Prosperity and economic growth through encouragement of the private sector that provides jobs and generates the abundance that pays for government as well.

* Skillful management of economic affairs by creating an environment of sustained, non-inflationary growth which will benefit every man, woman and child in our country.

* Reducing the growth of runaway government spending which more and more Americans recognize as the biggest single domestic problem facing our country today.

* Lowering the level of taxation in America. Taxes are too high for almost everyone. We must reduce the overall level of taxation so that our vital economy and society are spared the stultification and decay we have seen in other societies where the state has consumed an ever larger part of the national product.

These moral and practical guidelines would provide the basis for the most sweeping reform of American government in our history. But what have the American people been offered thus far in this political campaign? If, indeed, a platform is a contract with the people, then the platform adopted a few weeks ago here in New York City is a stark statement of the principle of spend-spend, elect-elect, inflation, controls, bigger and bigger government syndrome that has been at the very root of our economic problems during the postwar period -- especially the past 10 years -- and still remains alive and well in Washington, D.C. today.

This platform should really be called "Promises Promises Promises," for just like Santa Claus, and all the platforms from years past, it has something for everybody. The trouble is, playing Santa with the taxpayer's money dispenses neither good will nor integrity. The only thing it does dispense is pure hypocrisy.

Take a look at the platform and see what it calls for:

Guaranteed jobs for all at government expense;
National economic planning;
National day care systems;
A <u>mandatory</u> national health system;
A <u>phased-in</u> federal takeover of welfare;
Entirely new federally funded programs for transportation;
New public needs employment programs for the cities;
Substantially increased federal payments to education;
Countercyclical aid to state and local governments;
More federal subsidies for public housing;
Higher commodity prices for farmers, yet lower food prices for consumers. And then to top it all off, we're promised a balanced budget.

Now isn't it wonderful? There's more money for literally everything that lives and breathes. The list goes on and on. But what it all adds up to is bigger and bigger government higher and higher inflation, and eventually more unemployment and greater economic instability.

And in all of this, mind you, not a word about who would pay for all these programs or even how much they would cost. Well, they do cost, and they're going to cost a lot, because there is no such thing as a "free" lunch or "free" education, or "free" health care. In fact, there is no free anything.

What is the price of these instant cure-alls? The programs of this platform could easily exceed an additional $200 billion -- that's $1,000 for every man, woman and child in America or over one-half of what our federal budget is today. The average American taxpayer would have to work for half the year just to support government, and only then could he start to support himself and his family.

But the platform makes the appealing claim that all these programs are possible without substantial new inflation given a federal policy of full employment, because for every one million newly employed people who pay taxes, the federal deficit will supposedly be decreased by $16 billion. But how are these people to become employed? Why, by spending more money, of course. This means that the deficit will not disappear by such steps but will only grow.

So where would the additional needed revenue come from to balance the budget? It could be raised by borrowing or taxing from the private sector, but that would only lead to a loss of jobs in the private sector. The other alternative would be to inflate the money supply which would merely set us off on another boom-bust cycle. The supposed cure, then, turns out to be illusory, and what results is new and higher inflation which in turn would only lead to a new and higher level of unemployment.

The issues involved here are by no means narrowly economic. They concern fundamental principles of equity and of social stability. The trouble with growing government spending is that however good the intentions which underlie the growth, those intentions are not achieved; that instead, the growth in government spending makes low-income people worse off, undermines social cohesion and threatens the very foundation of a free society.

Here, the outstanding fact is, that in every country in which the percentage of government domination has increased there has been a tendency to move toward instability, toward minority government and toward a threat to a free society. Have we forgotten the inextricable relationship between our economic freedom and our social and political freedoms?

Our desire for progress, in the form of improved living standards and employment opportunities, will surely be frustrated unless we better control the insidious inflation which has destroyed economic stability by triggering a costly series of booms and recessions. The tragic policy errors of the past and our hopes for the future must force us to recognize a basic reality: inflation is the greatest threat to the sustained progress of our economy and the ultimate survival of all of our basic institutions.

There is a clear record from the past: when inflation distorts the economic system and destroys the incentives for real improvement the people will no longer support the system and society disintegrates. I am convinced that our uniquely creative and productive society will also collapse if we permit inflation to dominate our economic affairs. There is no tradeoff between the goals of price stability and low unemployment as some critics have erroneously claimed. If we are to increase the output of goods and services and reduce unemployment, we must first make further progress in reducing inflation.

The intensity of my feelings about inflation has resulted in some critics labeling me as obsessed. However, I am not so much obsessed as I am downright antagonistic toward those who consistently vote for bigger deficits. We must always remember that it is inflation that causes the recessions that so cruelly waste our human and material resources and the tragic unemployment that leaves serious economic and psychological scars long after economic recovery occurs. It is inflation which destroys the purchasing power of our people as they strive -- too often in a losing struggle to provide the necessities of food, housing, clothing, transportation, and medical attention. Inflation is not now, nor has it ever been, the grease that enables the economic machine to progress. Instead, it is the monkey wrench which disrupts the efficient functioning of the system. It is the most vicious hoax ever perpetrated for the expedient purposes of a few at the cost of many. And there should be no uncertainty about its devastating impact, particularly for low-income families, the elderly dependent upon accumulated financial resources and the majority of working people who do not have the political or economic clout to beat the system by keeping their incomes rising even more rapidly than inflation. When inflation takes over an economy it is the poorest people who suffer most and turn to the government. It's an insidious process, because they become willing clients of the state and the very policies which created their misery.

The Democratic party platform then, far from being a guide to a new prosperity built upon sustained non-inflationary growth, is in reality a blueprint for economic disaster. By advocating such a massive and undesirable federal takeover of our national economy without even stipulating the means, the cost, or the method of payment, this platform not only insults the good faith and intelligence of the American taxpayer, but ignores the fundamental lesson of the past decade: it was these same excessive fiscal and monetary policies that caused the worst inflation in our peacetime history which in turn led to the worst recession in more than a generation. Our people have paid a terrible price for that ignorance.

In President Ford, we have a man who knows that real leadership is not always saying yes, because he has had the courage to say no. Thanks to his prudent, tough policies, we now have the best chance in a long time to enter an era of durable economic stability.

Our critics term the President's policies "Government by veto." But it is precisely because the President has vetoed more than 50 bills passed by the reckless free-spending Congress that the taxpayers have saved more than $14 billion.

Restraint on spending brought about by the President is the reason inflation has been cut in half, inflationary expectations have been lessened, and 87-1/2 million people are now working, more than at any other time in the nation's history. In essence, we've come a long way from the depths of the recession in 1975 and we're now well advanced into a period of economic expansion.

The essential point to remember, however, is that the President acted as he did because he had to. We must never forget that the other party has controlled both houses of Congress in all but four years since 1930. During this campaign the American people are being told we need to try new ideas, to spend a lot more money to create public employment which will allow us to balance the budget. This is a total contradiction; more of the same old quack nostrums which have in reality produced budget deficits in 38 out of the past 46 years. Every time you see the sun rise here in New York City, be reminded that your Federal Government, spurred by an undisciplined Congress, has spent more than a billion dollars of your hard-earned money. And if you think that's incredible, let me give you some more unbelievable facts about government spending.

Since 1962, our budget has exploded from $100 billion to a figure that will certainly top $400 billion in 1977. That's an increase of 300% in 15 years. The government is now growing much faster than our ability or willingness to pay for it.

The U.S. Treasury in just the past 10 years has borrowed half a trillion dollars in the private capital markets. That's money that was swallowed up by the Washington bureaucracy that could and should have been invested in the dynamic private sector.

Added to that is the suffocating weight of excess government regulations that are threatening to overwhelm many small businesses. Government now controls over 10% of everything we produce in the economy and indirectly controls almost all of the rest. That translates into a cost to consumers of $125 billion a year. One-hundred and thirty million man-hours are spent just filling out the forms.

It doesn't take a Ph.D. in economics to realize that the federal government has become the nation's biggest single employer, its biggest consumer, and its biggest borrower, and also the biggest source of inflation in the United States economy.

I am frankly astonished that whenever our critics are confronted with such irrefutable evidence proving we have too much government, they nevertheless plow on trying to make the case that there is not enough. The casualties of this misguided logic are jobs.

Free lives, individual lives, productive lives are built on capital investment, not on the red ink and the printing press of the government. If we are going to create the kind of jobs that will keep people permanently employed, that will meet the needs of a growing labor force and that will reduce our inflation by expanding our output of goods and services, then we must equip our workers with new and efficient plant, machinery, and tools. These capital needs of the future are staggering, about $4-1/2 trillion in the next decade -- or about three times as much as we spent in the last decade.

Savings are the source of this needed capital. But savings are currently being drained by excessive government deficits. Resources absorbed by government for its spending today cannot simultaneously be invested in expanded plant and machinery to employ more people tomorrow. We cannot have both bigger government and a healthy expanding private sector. Government doesn't create wealth -- people do. We

cannot continue to transfer each year an increasing percentage of our national wealth from the most productive to the least productive sector of our economy without endangering the economic future of our children.

If we're really sincere about providing more productive and lasting jobs for our economy we will only succeed by strengthening our free enterprise system, and that, I might add, constitutes the centerpiece of President Ford's program. This means controlling government spending, getting rid of excessive and counterproductive regulations, reducing personal and corporate taxes, and striking a new balance that favors less consumption and government spending and more savings and investment. The only way to wage a real war on poverty is to create jobs in the private sector, not jobs for bureaucrats.

In the past, we have looked upon our dynamic free enterprise system as the Golden Goose that produced all our blessings and encouraged the self-initiative that has made our country the envy of the world. But today Congress is spending faster than the goose can lay its eggs. And should these policies continue, they will not only steal all the eggs, but kill the goose itself.

What a tragedy that would be. Just look at what we would be sacrificing:

The private sector produces the food we eat, the goods we use, the clothes we wear, the homes we live in.

It is the source of five out of every six jobs in America, and it provides, directly and indirectly, almost all the resources for the rest of the jobs in our all-too-rapidly expanding public sector.

It is the foundation for defense security for ourselves and most of the Free World.

It is the productive base that pays for government spending to aid the elderly, the jobless, the poor, the dependent and the disabled. Indeed, far from being the inhuman monster caricature painted by political demagogues, the American private sector is in reality the mightiest engine for social progress and individual improvement ever created.

This, is the crucial theme that must be communicated broadly and deeply into the national consciousness: The American production and distribution system is the very

mainspring of our nation's strength -- the source of present abundance and the foundation of our hopes for a better future.

Yet we could lose it unless we act. Let's face it. Under the politics of spend-spend, elect-elect we will get a massive increase in federal expenditures which will inevitably be followed by a new round of double-digit inflation and a wrenching recession. And that means more cries for government help and more calls for government intervention. So what we're talking about is the survival of our free enterprise system and, more importantly, whether the protection of our personal liberties can survive in its absence.

Ladies and gentlemen, the question is, are we going to promote the individual or the government? We cannot do both. That is the issue, and our freedom and your children's is at stake. Do we want more freedom of choice and more freedom of individual action? Or do we want to see these freedoms and all the other individual freedoms we hold so dear gradually erode under more and more government encroachments on our lives. That is the true, crucial decision behind the rhetoric and personalities of this election year. And the choice we make will affect not only our own futures, and our children's, but the future of our country itself as America embarks on its third century as the hope and inspiration of free people everywhere.

Gerry Ford has taken his stand. He's taken a stand to protect the dignity and freedom of millions of individuals like yourselves by leading the battle to slow the growth in government. Control over government spending will allow you to keep more of your own money. President Ford has made and continues to make those tough decisions despite persistent criticisms, because he knows that it's the hard-working taxpayers who keep this country going. And those people need to be protected, not punished. That's the honest way to run an Administration -- nothing flashy, no gimmicks, just facing up to the job at hand each day and doing it. And by succeeding, he's also demonstrated that he understands what the real meaning of compassion is all about.

Two hundred years ago Thomas Jefferson said, "To preserve our independence we must not let our rulers load us with perpetual debt. We must make our choice between economy and liberty, or profusion and servitude." That was the choice 200 years ago and it remains the same today. But time is now running out. 1976 may be the last opportunity

we will have to stem the tide of big government and thinly disguised state socialism as practiced -- if not preached -- by many in Congress and elsewhere today.

If we love our freedom, then we must be prepared to defend it. Between now and election day I urge each one of you to decide how you can most effectively contribute to the preservation of a society that in 200 years has come to symbolize man's capacity to attain freedom, prosperity and dignity. This is an election in which the individual efforts of individual citizens will make the difference.

Thank you.

o0o

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

FOR IMMEDIATE RELEASE

SUMMARY OF LENDING ACTIVITY

July 1 - July 15, 1976

Federal Financing Bank lending activity for the period July 1 through July 15, 1976, was announced as follows by Roland H. Cook, Secretary:

On July 1, the Tennessee Valley Authority borrowed $235 million from the Federal Financing Bank. The loan matures September 30, 1976, and bears interest at a rate of 5.624%.

The Bank made the following loans to utility companies guaranteed by the Rural Electrification Administration:

Date	Borrower	Amount	Maturity	Interest Rate
7/1	Oglethorpe Electric Membership Corp.	$10,148,000	12/31/10	8.196%
7/9	Dairyland Power Association	10,000,000	12/31/10	8.179%
7/12	Cooperative Power Association	4,200,000	12/31/10	8.144%
7/14	Colorado-Ute Electric Association	5,400,000	12/31/10	8.146%
7/15	Tri-State Generation and Transmission Assn	5,255,000	12/31/10	8.144%
7/15	United Power Association	5,000,000	12/31/10	8.144%

Interest payments on the above REA loans are made on a quarterly basis.

On July 1, the Federal Financing Bank paid $503,283,767.55 to the Secretary of the Treasury for New York City Note #8. The face amount of the note is $500 million and bears interest at a face rate of 7.37%. The note matures April 15, 1977. The effective rate of return to the FFB is 6.495%. The Secretary of the Treasury made the loan to New York City under the New York City Seasonal Financing Act of 1975.

WS-1012

On July 6, the FFB purchased $4,770,000 of notes from the Department of Health, Education and Welfare. The Department had previously acquired the notes which were issued by various public agencies under the Medical Facilities Loan Program. The notes purchased by the Bank are guaranteed by the Department of Health, Education and Welfare and mature July 1, 2000. The interest rate is 8.150%.

The General Services Administration made the following borrowings from the Federal Financing Bank:

Date	Series	Amount	Maturity	Interest Rate
7/6	M	$ 267,531.68	7/31/03	8.302%
7/13	L	1,355,526.09	11/15/04	8.269%

On July 6, the Student Loan Marketing Association (SLMA) borrowed $15 million. The proceeds of the loan were used to repay a $10 million note maturing with the Bank, to pay interest due, and to raise additional funds. The loan matures October 5, 1976, and bears interest at a rate of 5.688%. SLMA borrowings are guaranteed by the Department of Health, Education and Welfare.

The Federal Financing Bank made the following advances to borrowers guaranteed by the Department of Defense under the Foreign Military Sales Act:

Date	Borrower	Amount	Maturity	Interest Rate
7/9	Government of Greece	$ 3,300,000.00	7/1/86	7.814%
7/9	Government of Brazil	822,538.80	10/1/83	7.684%
7/9	Government of Brazil	205,111.30	3/15/83	7.616%
7/12	Government of China	13,157,296.09	1/2/84	7.587%
7/12	Government of Brazil	713,194.84	10/1/83	7.611%
7/13	Government of Uruguay	3,600,000.00	6/30/83	7.513%
7/14	Government of Greece	42,700,000.00	7/1/86	7.727%
7/14	Government of Korea	11,819,132.83	3/31/84	7.611%
7/15	Government of Korea	290,443.00	3/31/84	7.621%

On July 13, the U.S. Railway Association (USRA) borrowed $3,903,000 against Note #9. The Association will loan the funds to the Missouri-Kansas-Texas Railroad Company pursuant to Section 211 of the Regional Rail Reorganization Act of 1973, as amended. Principal is payable in semi-annual installments of $390,300 commencing on October 20, 1984 with a final maturity of April 20, 1989. The interest rate is 8.053%. USRA borrowings are guaranteed by the Department of Transportation.

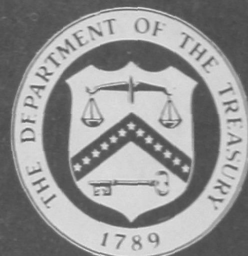
On July 14, the National Railroad Passenger Corporation (Amtrak) made a drawing against Note #6 in the amount of $15 million. The loan matures October 1, 1976. The interest rate is 5.415%. Amtrak borrowings are guaranteed by the Department of Transportation.

On July 15, the FFB purchased a $400 million 5 year Certificate of Beneficial Ownership from the Farmers Home Administration. The maturity is July 15, 1981. The interest rate is 7.80% on an annual basis.

Federal Financing Bank loans outstanding July 15, 1976 totalled $23.6 billion.

# # #

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



Contact: L.F. Potts
Extension 2951
August 5, 1976

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES MODIFICATION OF
DUMPING FINDING ON POTASSIUM CHLORIDE, OTHERWISE
KNOWN AS MURIATE OF POTASH, FROM CANADA

Assistant Secretary of the Treasury David R. Macdonald announced today a Modification of Dumping Finding on potassium chloride, otherwise known as muriate of potash, from Canada, with respect to Brockville Chemical Industries, Ltd.; Hudson Bay Mining & Smelting Co., Ltd.; Swift Canadian Co., Ltd.; and Cominco, Ltd. Notice of this action will appear in the Federal Register of August 6, 1976.

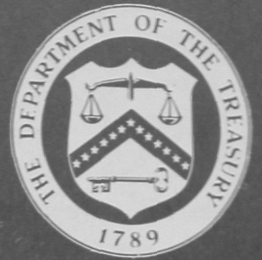
For the reasons stated in the "Notice of Tentative Determination to Modify or Revoke Dumping Finding" published in the Federal Register of May 16, 1975, with respect to Brockville Chemical Industries, Ltd.; Hudson Bay Mining & Smelting Co., Ltd.; and Swift Canadian Co., Ltd, and in the Federal Register of December 16, 1975, with respect to Cominco, Ltd., potassium chloride, otherwise known as muriate of potash, from Canada, is no longer being, nor likely to be, sold in the United States at less than fair value by these four companies.

During calendar year 1975, imports of the subject merchandise from the four above-named companies were valued at approximately $47.4 million.

o 0 o

WS-1013

he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE AT 5:00 P.M., E.D.T. August 5, 1976

TREASURY ANNOUNCES PRELIMINARY RESULTS OF SALE OF TEN YEAR NOTES

The Treasury announced today that it would accept approximately $7.6 billion in subscriptions for the 10-year note maturing August 15, 1986. In addition, $1.476 billion was allotted to Federal Reserve and Government accounts. Subscriptions accompanied by the 20 percent deposit will be accepted in full in amounts up to $300,000. Subscriptions accompanied by the 20 percent deposit for amounts exceeding $300,000 will be accepted in the amount of $300,000. No other subscriptions from the public will be accepted.

Subscriptions accompanied by the 20 percent deposit totalled $10.230 billion. Other subscriptions from the public totalled $14.139 billion for an aggregate subscription of $24.369 billion.

In a statement accompanying the announcement, Treasury Secretary William E. Simon noted the importance of maintaining control over the size of fixed price offerings and avoiding issues of unwieldy size. "A critical element of our debt management policy must be to insure that Treasury's financing activities are consistent with the objective of stable, properly functioning financial markets. It is also vital that we maintain our efforts to achieve a balanced debt structure. This successful sale makes an important contribution in both areas."

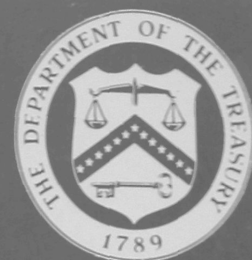
The ten-year note sale brings the total size of Treasury's August refinancing to $10.6 billion, reducing net new cash needs for the balance of the Transition Quarter to the range of $3.5 to $5.5 billion.

The sale of this note has enhanced the achievement of over-all Treasury debt management objectives and will result in some additional extension of the average maturity of the privately-held marketable debt. The importance of achieving a balanced debt structure, after years of continuing decline in the average maturity, is underscored by the growing amount of gross financing required to refund maturing issues and to raise additional cash. In the first seven months of this year the Treasury issued over $58 billion of new coupon securities and bills to refund maturing coupon issues and to raise new money. An additional $212 billion of bills was also issued to refund maturing bills.

WS-1014

oOo

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE RICHARD R. ALBRECHT
GENERAL COUNSEL OF THE TREASURY DEPARTMENT
BEFORE THE SECTION OF TAXATION OF THE
AMERICAN BAR ASSOCIATION
ATLANTA, GEORGIA
AUGUST 7, 1976

One day last month, the front page of the New York Times carried an article with the headline "Tax Bills Pass in Senate with Contents Unknown." This is, of course, a comment both on our legislative process and on the state of our tax laws. The same day, the lead editorial in the Washington Post began:

> "It used to be called the Tax Reform Bill. As it now stands on the Senate floor, it deserves to be called the Tax Shelter and Covert Subsidy Bill."

The accuracy or inaccuracy of that headline or that editorial conclusion is not important. What is important is what a responsible, informed, free press is telling the American public about our tax system. This bicentennial year seems to be an occasion for us to pause and reflect on where we have been as a nation, where we are, and where we are heading.

I will resist for today the temptation to examine the state of our legislative process that produced such a headline--although I am sure a political science professor could shape an entire college course around that statement. Rather, I would like to examine with you the state of our income tax laws after 200 years of national growth and only 63 years of growth of the income tax.

As we are all well aware, this nation was born during a tax revolt. The citizens of the 13 colonies were persuaded that the taxes being imposed on them were unfair and inequitable.

WS-1015

From the adoption of the Sixteenth Amendment in 1913, the income tax has progressed from a 15-page statute levying taxes at rates from 1% to 6% to an Internal Revenue Code requiring 1,700 pages of the United States Code and 6,000 pages of regulations levying income taxes at rates up to 70%.

Notwithstanding this dramatic increase in size, complexity, and tax levels, this tax system has served the country well along the way. It--along with some help from purchasers of government securities--enabled the United States to finance two World Wars and two so-called limited wars. It has assisted in the financing of the exploration of the moon and Mars. It has paid for a host of programs representing the noble efforts of our society to deal with its problems--from a war on poverty to wars on crime--from foreign aid to school lunch programs--from the search for a cure for cancer to the development of an effective swine flu vaccine.

But our tax system has been called upon to do a lot more than finance the direct efforts of its government. It has encouraged home ownership by millions of Americans by allowing the deduction of interest paid on a home mortgage. It has been used in an effort to alleviate the economic impact of major illness by allowing for the deduction of certain expenses for medical care and permitting the exclusion of sick pay from income. The dividend exclusion has been added to foster the ownership of stock by small investors, while the investment tax credit has encouraged American industry to increase its productive capacity and create more jobs. Through Domestic International Sales Corporations, it has encouraged manufacture at home rather than abroad by U.S. companies selling in foreign markets. It has encouraged investment in real estate developments through provisions such as those permitting accelerated depreciation of new projects.

The list is nearly endless. The income tax has been an efficient, convenient and effective tool for accomplishing many national objectives. An efficient, well-managed bureaucracy in the IRS has assisted in carrying out many national programs under the guise of collecting the revenue necessary to finance and administer other programs. That organization has done a good job, I might add. So good, in fact, that its team of professionals is looked to for assistance whenever a new, unplanned job comes along--whether it's administering a wage and price control program or providing staff for an energy office or a sky marshal program.

The significant feature of this tax program has been the voluntary compliance of the American public with the tax laws. This feature is not only significant but unique. That an American citizen would sit down at the end of the year and voluntarily report to his government--accurately and honestly--his income and his tax liability is an idea not readily accepted in many countries of the world. Sure there are some built-in incentives--criminal sanctions from noncompliance, withholding from wages and salaries, and quarterly payments to ease the blow on April 15. Indeed, withholding tables that produce refunds for a large number of taxpayers probably help greatly in assuring compliance and early filing.

But this maze that is our tax law has developed to the point where we must ask ourselves where we are headed. We must ask whether the tax law has been called upon to do too many things. The most frequently quoted statement by Commissioner Alexander was his apology to the American taxpayer for the length and complexity of this year's tax returns. We are told that two out of five taxpayers seeks professional help in preparing their individual returns--with millions more who could benefit from such assistance. We are told by the General Accounting Office--with apparent delight on the part of the press--that even accountants and tax lawyers can't compute the average taxpayer's liability without error more than half of the time. Those figures should not be too surprising since, unfortunately, there are many issues as to which there is no single right answer. Many entries on a return can depend upon the judgment of the preparer and on whether or not a doubt is resolved in favor of the taxpayer or the government. But it also should not be a surprise that this situation has fostered the growth of organized tax protest movements and has produced press reports of an impending tax rebellion.

If we believe--as I do--that our "voluntary, self-assessment" tax system is worth holding onto, we must act now. It may no longer be a "self-assessment" system when nearly half of the returns are prepared by hired hands. Hired, incidentally, in most instances not because of the affluence of the taxpayer, but because of his feeling of helplessness when faced with a set of incomprehensible forms, instructions, rules and regulations.

In my preparation for this appearance today, I learned that your Section has had since May of 1972 a Special Committee on Simplification. One Washington wag--obviously not a tax lawyer--believes that putting a committee of tax lawyers in

charge of simplifying the tax code is akin to putting a committee of foxes in charge of the chicken farm. I repeat that story for you, not because I believe it is true, but because I believe you need to be reminded of the skepticism with which the public is likely to greet any proposal for simplification coming from a group whose livelihood is perceived to be dependent upon the complexities of the present system.

I have read each of the annual reports of your Committee on Simplification. It is interesting to observe that in its first report the Committee stated that, "The Committee's understanding of its function is not that of advocating basic reform of the tax law." Rather, the Committee set as its goal to propose something "more limited and,...more readily attainable in the near future."

After four years of effort--and against the backdrop of a 674-page House-passed tax "reform" bill and an apologetic Commissioner--your Committee has become bolder and more ambitious. Tax Section Recommendation No. 1976-1, adopted by your Council on March 5, 1976, and by the Board of Governors of the ABA on April 7, 1976, gets right to the heart of the matter. I believe the first paragraph of that resolution states the goal so succinctly and so well that it bears repeating here. Indeed, if our tax code could be as precise and concise, it would require only 170 pages rather than 1,700. It begins:

> "RESOLVED that the American Bar Association recommends to the Congress that it simplify the internal revenue laws to the maximum extent consistent with basic equity, efficiency, and the need for revenue, so that such laws can be easily understood and complied with by taxpayers and fairly and consistently administered and enforced by the Treasury Department."

Now a resolution like that implies that the revenue laws presently cannot be easily understood and complied with by taxpayers and cannot be fairly and consistently administered and enforced by the Treasury Department. Indeed, your Committee's report says as much. It begins:

> "There is general agreement that the internal revenue laws have, in many respects, become so complex as to defy comprehension; that uniform enforcement is virtually impossible; that compliance with these laws requires an undue expenditure of time and money; and that

> the complexity of these laws affects public confidence in our tax system and imperils the voluntary compliance upon which the system depends. Thus the internal revenue laws are in dire need of major simplification, and a comprehensive program is needed."

Those are very strong words, indeed. I believe they are especially worthy of attention because of their source--which I have already indicated is likely to be regarded with suspicion by the general public. But their thrust bears a remarkable resemblance to the words used by Secretary Simon in a speech three months earlier when he said:

> "Let me turn now to the...step that I personally believe we should begin considering with regard to our tax system. This is a concept that has been suggested from time to time but it is rarely given serious consideration. It is simply this: to wipe the slate clean of personal tax preferences, special deductions and credits, exclusions from income, and the like, imposing instead a single, progressive tax on all individuals."

When the official charged with collecting the taxes and the leadership of the tax bar can agree on a basic objective, it must have some merit. But getting there will not be easy.

Ours is a complex society, with complicated and sophisticated financial transactions (some of which certainly have become more complex as the result of efforts to minimize taxes). The obvious questions will come to your minds more quickly than they will to others. How do we deal with personal holding companies, collapsible corporations or corporate reorganizations under a simplified system?

There would also be tremendous transitional problems--and problems of effective dates to prevent a rash of pre-effective-date transactions in anticipation of true reform. You are all aware of the problems associated with the phasing in and phasing out of a single tax feature such as the investment tax credit. Overhauling the entire system will immeasurably compound those problems. These problems should not deter us, however, since the phasing out of complexities will always produce its own set of transitory complexities, no matter when it is undertaken.

It will not be easy to sell tax reform to those--and there will inevitably be some--who will pay higher taxes. I suspect it will be even more difficult to sell reform to those whose over-all tax burden will actually decrease, but for whom the prospects for decrease are well hidden by the complexities of current law.

I am happy to report that the initial phase of the task is under way. At the direction of Secretary Simon, a task force headed by Charles Walker, Assistant Secretary for Tax Policy, has begun the task of making tentative decisions on specific elements of a proposed restructured system.

While it is premature to suggest what any of the tentative decisions of the Basic Tax Reform Project are, we can take a look at the approach that is being followed.

The present system is being reviewed in its entirety, with a view to recommending changes that will:

1. Make it simple;
2. Make it more fair;
3. Make it economically efficient.

The simplification goal is self-evident. The Code provisions should be easily understood and applied, especially by the large majority of individual taxpayers. Simplicity is, of course, of less concern and more difficult to achieve for high income, sophisticated taxpayers and large business enterprises.

The fairness goal is to treat similarly situated taxpayers in as equal a manner as possible, and to produce a system under which all taxpayers are perceived to pay, and in fact do pay, their fair share of taxes.

The economic efficiency goal is to neutralize the tax system in the decisions on utilization and allocation of resources.

The Treasury review is assuming that no changes should occur in the total revenue raised, in the effective degree of progressivity in the present tax system, or in the distribution of the tax burden among income classes.

At this point, a number of tentative decisions have been

made, with more yet to be made. When these have been completed, computer analysis will be used to assist in determining an appropriate rate structure and in ascertaining the need for revising some of the tentative decisions.

In the work to date, there has been an effort to broaden the tax base in every reasonable and consistent way, and to reduce deductions, credits and exemptions to a minimum. In this respect, the starting point has been to eliminate all of them, and to retreat from that point only as far as necessary to advance the goals of simplicity, fairness and efficiency of the tax system. Decisions also have been made concerning the measurement and taxation of income from business, conducted both in corporate and noncorporate form. Decisions are in process with respect to the measurement and taxation of foreign source income. Decisions are yet to be made on numerous other subjects, including proposed statutory assurance that the relative tax burden among income classes, reflected by the lower rate structure adopted for the broadened base, will remain constant.

When the work of this task force is made public, hopefully by the end of this year, we will put to the acid test the degree of our national addiction to the use of the income tax to try to fine-tune our society.

No doubt every special interest group that currently benefits from one of the deductions, exemptions or special provisions will look with a jaundiced eye at any proposal that eliminates such a provision. We will be reminded with a vengeance that one taxpayer's concept of "equity" will be looked on as another person's loophole.

This is when we will need the cooperation, patience, understanding and selfless leadership of the tax bar. During the past two years I have been privileged to get acquainted with some of the leaders of the Section of Taxation and to work closely with a number of your colleagues in government--both at Treasury and on Capitol Hill. I have talked with and met a number of your officers and committee chairmen. I have been highly impressed with the attitude and spirit of genuine concern for the tax system reflected in the actions and deliberations of the Section of Taxation.

Any Basic Tax Reform proposal worth its salt will contain some real shockers. Some of the concepts that have come to be regarded as fundamental may have to be discarded.

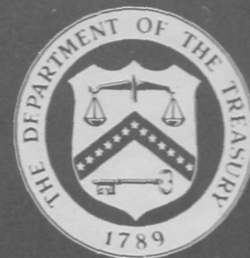
That is when I believe the Tax Section can provide a valuable public service. Against the backdrop of the inevitable emotional reactions, your Section can provide an objective analysis of the proposal in terms of its ability to meet the announced objectives. While your analysis will undoubtedly prompt you to propose modifications, I hope you can resist the temptation to fine-tune the package with a host of special provisions.

Then, if you agree that the proposal--taken as a whole--is an improvement over what we have today, the Section should speak out in no uncertain terms. You will have the opportunity and, I believe, the responsibility, to help educate a public that, although it may be ready for change, has in the past shown itself to be very reluctant to accept dramatic changes.

I am convinced that this task is not only necessary, but one that can be accomplished.

o 0 o

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



Contact: H.C.Shelley
Extension 2951
August 6, 1976

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES PRELIMINARY COUNTERVAILING DUTY DETERMINATION ON CERTAIN SCISSORS AND SHEARS FROM BRAZIL

Assistant Secretary of the Treasury David R. Macdonald announced today a preliminary determination under the Countervailing Duty Law (19 U.S.C. 1303) that bounties or grants are being paid or bestowed on imports of certain scissors and shears from Brazil. Notice to this effect will be published in the Federal Register of August 9, 1976. A final determination must be made by February 9, 1977.

Information before the Treasury indicates that certain scissors and shears are receiving bounties or grants in the form of indirect tax credits, preferential financing, and income tax exemptions.

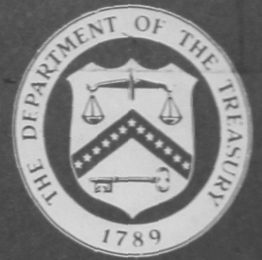
The petition, filed by the National Association of Scissors and Shears Manufacturers, relates to scissors and shears valued at more than $1.75 per dozen.

During 1975, imports of certain scissors and shears from Brazil were valued at roughly $1.2 million.

* * *

WS-1016

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



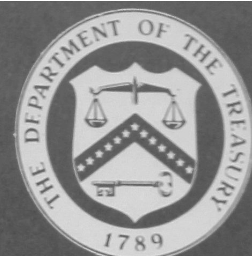
August 6, 1976

Contact: Vera Hirschberg
964-5985

MEMORANDUM TO CORRESPONDENTS

Treasury Under Secretary Jerry Thomas will be available for a "get acquainted" session with reporters at 10:30 a.m. Tuesday, August 10, 1976 in Room 4125, Main Treasury.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE

August 6, 1976

RESULTS OF AUCTION OF 25-YEAR TREASURY BONDS AND SUMMARY RESULTS OF AUGUST REFINANCING

The Treasury has accepted $1.0 billion of the $2.5 billion of tenders received from the public for the 25-year bonds auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	7.98%
Highest yield	8.03%
Average Yield	8.01%

The interest rate on the bonds will be 8%. At the 8% rate, the above yields result in the following prices:

Low-yield price	100.215
High-yield price	99.679
Average-yield price	99.893

The $1.0 billion of accepted tenders includes 30% of the amount of bonds bid for at the highest yield and $132 million of noncompetitive tenders accepted at the average yield.

In addition, $0.6 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.

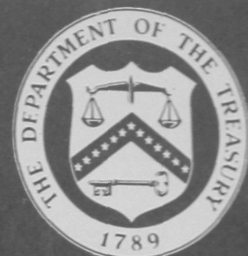
SUMMARY RESULTS OF AUGUST REFINANCING

Through the sale of the three issues offered in the August refinancing, the Treasury raised approximately $6.3 billion of new money and refunded $8.0 billion of securities maturing August 15, 1976. The following table summarizes the results:

	New Issues						
	6-7/8% Notes 8/15/79	8% Note 8/15/79	8% Bond 8/15/96-2001	Nonmarketable Special Issues	Total	Maturing Securities Held	Net New Money Raised
Public...........	$2.0	$7.6	$1.0	-	$10.6	$4.5	$6.1
Government Accounts and Federal Reserve Banks............	.7	1.5	.6	7	3.5	3.5	-
Foreign Accounts for Cash.........	.2	-		-	.2	-	.2
TOTAL........	2.9	9.1	1.6	.7	14.3	8.0	6.3

WS-1017

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



STATEMENT BY JOHN M. NIEHUSS
DEPUTY ASSISTANT SECRETARY OF THE TREASURY
FOR INVESTMENT AND ENERGY POLICY
SUBMITTED TO THE
HOUSE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
SUBCOMMITTEE ON ENERGY AND POWER
WASHINGTON, D. C.
AUGUST 6, 1976

The Alaskan Natural Gas Transportation Act of 1976

Mr. Chairman and Members of the Committee:

I am pleased to submit the following statement for the record setting forth Treasury Department views concerning the proposed Alaskan Natural Gas Transportation Act of 1976.

Treasury Department General Support for Expediting Legislation

The Treasury (1) supports the concept of legislation to provide a procedure to expedite the final selection of an Alaskan Natural Gas Transportation System and (2) urges the Congress to take prompt action on S. 3521, as modified by the comments you have heard from the FEA and Interior Department witnesses who appeared before you.

The Treasury Department's interest in the proposals for an Alaskan natural gas transportation system relates primarily to the issues associated with financing such a large and complicated project. As you will recall, the Department testified before this Subcommittee on May 17, 1976 and presented a detailed statement on the financial issues raised by the proposed projects. (A copy of the May 17, 1976 Statement is attached for reference.) Our present position on the financing question is essentially the same as that expressed in the previous testimony, and I will not review our analysis in detail in this statement. We still believe that it will be possible to arrange a private financing for an

Alaskan gas transportation system without federal financial assistance provided that appropriate regulatory and administrative actions are taken and the financial risks associated with the project are equitably shared by all the parties benefiting from the project.

However, we also continue to believe that whether a totally private financing is achievable will remain a matter of speculation until one of the projects is selected, the project participants are identified and the regulatory conditions under which the project would be constructed and operated are known. Final selection of one of the competing projects is essential before many of the difficult issues involved in financing a transportation system can be resolved. Expedition of the final selection of the project would, therefore, also expedite the resolution of the financial issues involved.

Specific Comments on Financing Aspects of S. 3521

S. 3521, as reported by the Senate Committees on Commerce and Interior and Insular Affairs, contains a number of sections relating to the financing of an Alaskan natural gas transportation system. Specifically, Section 5(d) requires the Federal Power Commission to include in its recommendation to the President an analysis of anticipated tariffs and the feasibility of financing each of the transportation systems it reviews. Section 6(a) of the proposed legislation permits any government agency to submit a report to the President on issues (including the sources of financing for capital costs) raised by the FPC recommendation to the President. Lastly, Section 7(c) requires the President to submit, along with his recommendation to Congress, a financial analysis of the transportation system chosen by him. This section further provides that unless the President "reasonably anticipates" that the system chosen by him can be privately financed, he shall make recommendations concerning the use of existing federal financing authority or the need for new federal financing authority.

In our view, these provisions adequately provide for appropriate review by the Federal Power Commission, interested government agencies and the President of the financial questions involved. We support their inclusion in the legislation and generally believe that they provide an adequate procedure for resolving the difficult issues involved in financing an Alaskan natural gas transportation system.

The Federal Power Commission hearings may provide an appropriate forum for the various interested parties to resolve the numerous remaining financial questions with respect to the projects. For example, it is conceivable that, as a result of the FPC process, agreement could be reached on appropriate project tariffs and financial participation by project beneficiaries which would create a reasonable expectation that the project could be privately financed, constructed and operated. However, if such arrangements were not concluded during the FPC process, S. 3521 would give the various government departments (including the Department of the Treasury) an opportunity to make recommendations to the President with respect to additional actions which might be taken under the provisions of S. 3521, the Natural Gas Act and other applicable laws to achieve a private financing. Should it be found that existing laws do not contain adequate authority for the implementation or maintenance of needed regulatory actions, consideration could then be given to legislation which would provide the necessary authority.

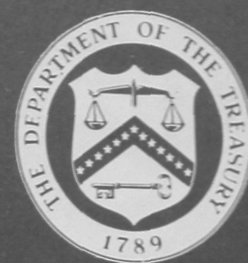
As noted above, we do not believe that federal financial assistance will be needed if appropriate regulatory and/or legislative actions are taken which equitably apportion the financial risks among the various project beneficiaries. However, in the event that the President concluded that it was not possible to conclude arrangements or introduce legislation which would make a private financing possible, S. 3521 would require him to make recommendations to Congress concerning federal financial assistance. In this regard, we would expect that the Treasury and other interested agencies would make recommendations to the President which would minimize the amount of federal assistance given and the impact of such assistance on our capital markets.

While it is impossible to predict precisely the form of the FPC decision concerning the financial issues, one alternative would be for the FPC to grant a certificate conditional upon subsequent arrangement of financing. It has also been suggested that the FPC defer the setting of a rate of return on equity in the project entity until after an attempt has been made to arrange financing. These procedures would imply that, after selection by the FPC, the successful applicant would attempt to arrange definitive financing and then return to the Commission for approval of the final financial package.

It is important that the procedures established by the legislation permit expedited handling and limit judicial review of any subsequent FPC action in connection with financing of the project. Otherwise, the purpose of the legislation could be frustrated and the implementation of the project delayed. The provisions of Section 9 of the Act authorizing the FPC to "issue and take...other authorizations necessary or related to the construction and initial commercial operation of the transportation system selected" appear to provide for such expedited treatment and limitation of judicial review for subsequent FPC actions on financing issues. However, it is such a critical issue with respect to the financing of the project that we call it to the Committee's attention in case it wishes to seek views of other witnesses or perhaps deal with the question in the Committee report.

Mr. Chairman, FEA and Interior Department witnesses who appeared before you have outlined in some detail the modifications which the Administration is proposing to S. 3521. I will not comment on these proposals except to note that the Treasury fully endorses these recommendations.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE | August 9, 1976

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,700 million of 13-week Treasury bills and for $3,800 million of 26-week Treasury bills, both series to be issued on August 12, 1976, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing November 12, 1976			:	26-week bills maturing February 10, 1977		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	98.689	5.130%	5.27%	:	97.272 a/	5.396%	5.62%
Low	98.675	5.185%	5.33%	:	97.250	5.440%	5.67%
Average	98.676	5.181%	5.32%	:	97.259	5.422%	5.65%

a/ Excepting 1 tender of $1,500,000

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 10%.

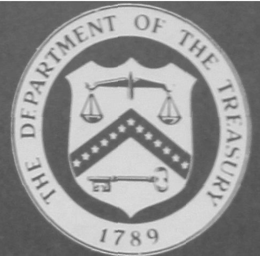
TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	:	Received	Accepted
Boston	$ 42,855,000	$ 21,255,000	:	$ 37,265,000	$ 22,765,000
New York	4,329,420,000	2,194,630,000	:	5,084,325,000	3,172,625,000
Philadelphia	15,900,000	14,615,000	:	36,645,000	22,145,000
Cleveland	28,275,000	26,680,000	:	135,915,000	75,915,000
Richmond	14,145,000	14,145,000	:	18,215,000	18,215,000
Atlanta	26,175,000	24,900,000	:	10,605,000	10,605,000
Chicago	309,340,000	253,340,000	:	412,130,000	250,630,000
St. Louis	47,040,000	20,775,000	:	34,020,000	23,020,000
Minneapolis	35,695,000	8,695,000	:	49,490,000	46,790,000
Kansas City	47,330,000	30,920,000	:	30,610,000	27,610,000
Dallas	26,000,000	12,000,000	:	22,170,000	17,170,000
San Francisco	286,665,000	78,965,000	:	227,625,000	113,325,000
TOTALS	$5,208,840,000	$2,700,920,000 b/		$6,099,015,000	$3,800,815,000 c/

b/ Includes $ 308,620,000 noncompetitive tenders from the public.
c/ Includes $144,670,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

WS-1019

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE AFTER 1:00 P.M., EDT, MONDAY, AUGUST 9, 1976

OPENING ADDRESS BY THE HONORABLE EDWIN H. YEO, III
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
AT THE XII INTERNATIONAL INSURANCE SEMINAR (1976)
FAIRMONT HOTEL, SAN FRANCISCO, CALIFORNIA
MONDAY, AUGUST 9, 1976

WS-1020

I am delighted to be here today, and thank you for giving me such a timely topic to address. Without being overly dramatic, I would argue that our conduct of macro policies -- not just in the U.S., but in Japan, the U.K., Germany, and other major countries, over the next year or so will play a pivotal role in determining the course of economic and financial developments for the rest of the decade.

The policy prescription I am going to present is, in a nutshell, "take it up carefully, boys". The need for extreme care stems from the highly unusual context in which I and my colleagues at finance ministries and central banks around the world are operating.

There are several aspects of the economic mileu in which we are operating that I want to discuss with you today. I want to begin with developments during the last few months and their implications for the future and our perception of the circumstances in which we are operating. Next, I'd like to move on to a discussion of medium-term concerns, and put these in their international context.

The present situation of the U.S., like that of many other industrial countries, is that the economy is in the transition period from recovery to expansion. The two

major stimuli in the recovery were a surge in consumer spending as confidence revived -- consumers relaxed somewhat their high liquidity preferences and some precautionary balances were run down; and a swing to restocking of inventories following the violent decumulation during the previous recession.

The crucial question now is, how do we best ensure sustained expansion? Specifically, how do we avoid a repeat of the 1972 - 75 boom-bust sequence on the one hand, and an early stalling of the adolescent forces of expansion on the other hand?

The public debate on this issue -- in the U.S., and also in international fora such as the OECD -- seems to me to have missed an important point, which I can perhaps develop best by analyzing some recent developments in the U.S. economy.

In particular, I want to call your attention to the recent evidence on consumer behavior -- the available information we have on what is going on in the heads of our basic economic unit, the individual.

First, the past three to four months has seen a stability in retail sales which has occurred, despite continual growth of both real and money income though to be sure this has largely reflected sharply increased employment, rather than increases in income per employed person.

This stabilization of retail sales is still puzzling at this stage of the upturn. There is absolutely no evidence that consumers' liquidity positions are strained -- as is characteristic of the upper turning point of the cycle. Quite the contrary, consumers appear to be relatively liquid and benefitting from a comfortable relationship between debt service requirements and income flows. Rather, it appears that this reflects a more basic feeling of hesitancy on the part of consumers:

-- attitudinal surveys show an erosion in optimism regarding the outlook starting in late spring and early summer, and approximate stability since then with perhaps some firming of attitudes very recently. It would appear that these attitudes have been manifest in a higher liquidity preference, a more cautious allocation of income to spending. The result, in a period of rising incomes has been a higher saving rate.

These attitudes have also been manifested in a rise in the labor force participation rate for women, which has taken an uncharacteristic spurt recently. I say "uncharacteristic" because there have historically been two stages in the cycle when such spurts in participation rates for women occur -- early in the recovery, as word gets around that things are looking up, that jobs are available; and -- toward the upper turning point, when accumulation of consumer debt leads to pressures for additions to household incomes.

This latest increase, which has gone on for three months now -- May, June and July -- is distinctly abnormal.

To me, these two departures from historical experience are evidence of a basic change in the economic environment. I think we have not fully realized the amount of scar tissue the 1972 - 75 boom-bust cycle has left on each of us as individuals, the individuals who as consumers ultimately determine the course of the economy. Some analysts seem to think that assumptions about individuals' economic behavior that were developed in the 1950's and early 1960's are as applicable today as they were then. This in turn assumes that attitudes and behavior have not been conditioned by the extremities of 1972 - 75. In my judgment, the analysts are wrong; and their policy prescriptions require close scrutiny as a result. My assumption is that we have been heavily conditioned by our recent past, and as a result, our collective economic and financial behavior may differ from what had been presumed to be characteristic in earlier years.

(1) Consumers are extremely sensitive to the economic "outlook". They translate quickly and forcefully changes in their perception of prospects into alterations in their spending/saving behavior. Inflation is viewed as being "bad" for business and for themselves. If inflation appears to be quickening, we as individuals act to guard against the

the increased possibility of economic adversities resulting from higher prices;

(2) Expectations of inflation, touched off by stimulatory actions from growing government budgets and other excesses cause perverse consumer behavior leading to less, not more, current consumption spending, with attendant effects on inventories and orders with cumulative impact on production and employment.

If I am right, actions by the authorities to stimulate the economy may be counter-productive, if we as individuals view them prospectively as "inflationary". Taking the argument a step further, if this sort of response mechanism presently characterizes the economies of the major industrial countries, we have stood the so'called "Philips Curve" on its head. Not only is there no certain trade-off between inflation and unemployment, attempts to expand the economy may <u>increase</u> unemployment.

(3) The converse of this last point is that if consumers conceive that prospects for relative stability in prices have improved and if income flows are high and liquidity positions are comfortable, consumer spending can quicken very appreciably. In my view, this was one of the factors behind the surge in consumer outlays in the U.S. in the fourth quarter of 1975 and the first quarter of 1976. After uncertainty regarding price

prospects in the summer of 1975 -- a pessimism stemming from the assumption that economic recovery automatically meant more inflation -- attitudes changed. As we moved into the winter the tantalizing prospect of recovery with less inflation became more tangible and we as individuals responded by opening up our pocketbooks.

Interrelated with changes in individuals' economic behavior is the legacy of 1972 - 75 on our capital stock. As was agreed at the Summit in Puerto Rico, an essential precondition for sustained, non-inflationary growth, is a revival of investment -- specifically, fixed private capital formation.

The reasons for this emphasis on fixed investment are quite clear:

-- The severity of the recent recession led to substantially reduced real investment rates, lower growth rates and the resulting lower growth of productive capacity in most major countries.

-- Unless this is made up, capacity limits could be reached at an unusually early stage in the upturn. Although it is difficult to estimate the margin of unused capacity with a high degree of accuracy, recent trends suggest that

it may be smaller than earlier estimates suggested. Capacity utilization in some industries in some countries is already quite high and there is a clear danger of the re-emergence of "bottlenecks" unless investment in key sectors is strongly increased.

-- In addition, changes in relative input prices resulting from the exorbitant increase in energy prices have rendered a portion of existing capital stock obsolete and may well have raised required capital-output ratios for the future.

-- The economic and political need to develop alternative sources of energy, as well as emphasis on pollution control facilities, will also increase investment requirements tremendously over the next decade.

-- Finally, the severity of the past inflationary episode had its own contribution both in terms of total volume of investment and to the unevenness of capacity adequacy across industry groups, as a result of its distortionary effects on resource allocation.

In short, the need to make up for low investment ratios earlier in the 70's, sectoral pressure on capacity, technical obsolescence, and the objectives of greater energy self-sufficiency and pollution control, all require increasing the share of private capital formation in GNP.

A recovery of profits from their depressed levels of recent years will be a necessary pre-condition for a sustained revival of fixed investment.

-- In the U.S., the share of profits in GNP averaged 7.1% during the period 1970 - 1975, compared with nearly 10% during the decade of the 1960's.

-- A study published in the Bank of England Quarterly Bulletin indicated a decline in the pre-tax real rate of return in private fixed capital in the U.K. from roughly 11% in the early 1950's to less than 7% in the 1970's.

One source for the real resources necessary to realize this goal is the public sector. We need to reduce public sector deficits, and keep a tight rein on the share of the public sector in GNP. In addition, there may well need to be a less rapid growth in consumption than we have enjoyed in the past.

Both of these policy prescriptions entail some fairly stark decisions for economic managers.

During most of the postwar period, there has been enough resources to fulfill expectations (or ratify demands) for rising real consumption levels, increasing levels of government services, and to provide the necessary real investment to keep things moving. In these circumstances, macroeconomic management could be devoted to guiding the overall economy through some relatively mild cycles, with

one eye cocked for untoward developments on the international side.

In present circumstances, there is simply not enough to go around in the style we all became accustomed to in the 1960's. Real consumption cannot regain past growth trends, and government services cannot command an increasing share of GNP, without squeezing private investment. In turn, squeezing investment will mean a lower growth rate in the future and at some point, an absolute decline in material well-being.

Close beneath the surface is the debate which has been bubbling along for several years: between those who believe that the traditional macro tools of monetary and fiscal policy are still sufficient to guide the course of the economy; and those who believe that some sort of "incomes policy" is necessary to prevent inflation in a squabble over income shares.

I want to be very clear -- "incomes policies" are not suitable to the U.S. economy. I was flatly opposed to our own experiment with wage/price controls at the time they were imposed. They do not look any better in retrospect.

On the other hand, I think that we need to intensify our efforts to widen the forum and stimulate formation of a consensus on economic policy. This, after all, is an integral part of the democratic process and includes

not only general agreement on the goals of policy, but also an understanding of the economic realities as they affect both policy choices and the goals themselves.

I believe that the German system of concerted action among representatives of government, business, and labor has major elements of this. I have been impressed by the reported candor and cooperative spirit of these regularly scheduled meetings, particularly the demonstrated ability of the concerted action framework to produce a broad consensus on the underlying economic situation and to identify priority policy goals. In the process, the government retains the ability to use the basic tools of economic management. Such a mechanism does not prevent the applications of such fiscal and monetary policies as may be required to keep the economy on an even keel.

I want to keep before you the sharp distinction between this sort of dialogue and "incomes policy," which I understand as a process of reaching agreement on how the economic pie is shared.

At the extreme, this latter involves detailed, formal economic planning -- so much for wages, so much for profits. A more limited form is wage and price controls. Perhaps I need not reiterate the degree of our dissatisfaction with our fairly recent experiment along these lines. "Disaster" would be a somewhat mild characterization; it could be prefaced with "unmitigated" for those who like their salad well-dressed.

There is an economic maxim that, for best results, the economy policymaker should have as many policy instruments as he has economic targets. Looked at another way, there is an argument for specialization and division of labor in economic policymaking. That is, let market forces do the things they do best -- allocate resources. And let macropolicies operate in their most efficient manner, again, via market forces.

If the resulting distribution of income or wealth is not acceptable on social or ethical grounds, there are tried and true methods of reducing inequities, notably via the system of transfer payments characteristic of virtually all advanced societies. New policy tools, notably the negative income tax, have been suggested. The important thing is to avoid altering the basic thrust or nature of demand management policy. They do, of course, interact -- e.g., taxation can, and in this country and many others, does affect incentives to save and invest.

The point here is that we are in a situation where, even with extremely skillful management of our economic policies, we will have to accept a lower rate of growth of consumption -- both public and private -- than we have accustomed ourselves to expect. The policymakers' job is quite hard enough without hamstringing our most powerful and effective economic policy tools -- monetary and fiscal measures.

The policy prescription is two-fold:

(1) Develop and maintain a clear view of the economic realities -- goals, policies, constraints;

(2) Let market forces help, rather than fruitlessly try to thwart them by such devics as indexing and wage/price controls.

Let's not kid ourselves -- our options are very limited. Unless my analysis up to now is far off the mark, we must face up to the basic facts of life, and shape both the dialogue and our policies accordingly. We will do no one a service -- quite the contrary -- by such exercises in wishful thinking as the so-called "Humphrey-Hawkins" bill. Much as I would like to be able to say, "Yes, Virginia, there is a Santa Claus," there

really is no alternative to "take it up carefully, boys". This applies to the so-called LDC's, as well as to the industrial countries we have been focussing on so far.

As you no doubt are aware, the LDC's have had a double-barreled blow to their trade balances -- export earnings fell with the slump in the industrial countries, while import payments ballooned as a result of the OPEC action raising oil prices. In the short run, these countries sought to mitigate the effects of these events on their development programs by borrowing very large sums abroad. A sustained expansion in the industrial countries is a prerequisite if they are to be able to absorb this debt, and accommodate additional debt, with a growing stream of export earnings. At the same time, however, the LDC's must "take it up easy" themselves -- they must pursue appropriate domestic policies to ensure that consumption does not grow so rapidly as to crowd out investment or outstrip earnings, thus simultaneously increasing indebtedness while eroding the ability to service debt.

Finally, I want to say a word about the international monetary context in which all of this takes place.

This forum, and its international list of participants and subjects for discussion, attests to the increasingly

interdependent world in which we live. That interdependence has very basic implications for macro management in each and every one of our countries; namely, that it is no longer possible -- if indeed it ever was -- to impose stability on the world economy from without.

The last attempt to impose stability externally -- Bretton Woods -- gasped its last in early 1973, with the advent of widespread, albeit "managed," floating of currencies. This demise has been formally recognized, and the framework for a new international economic system established, at Rambouillet and Jamaica. The essence of this new dispensation is its recognition that stability must come from within -- as a result of appropriate domestic policies, not some sort of international Procrustes Bed.

However, old ideas die hard. Despite the failure of Bretton Woods, under much less severe strain than the events of the last few years have put on the international economy, we still see periodic efforts to restore Bretton Woods-style parity relationships, with all the attendant paraphernalia of massive intervention, swaps, stiff-upper-lip statements which no one believes, etc.

What these attempts to turn back the clock represent is really an attempt to repeal the law of supply and demand -- a failure to fully understand the power of market forces.

After all, the increasing economic interdependence we all talk about is really nothing more than the increasing degree of participation in the international economy. We do so for the old, tried, and true reasons summed up in the terms "comparative advantage", "gains from trade", etc. Increasingly, international specialization and division of labor have come to involve flows of capital as well as of goods. It is this development more than anything which perhaps brought fixed exchange rates down. The benefits we gain from this process of increased international specialization are such that very few would propose reversing the process. However, if the gains from the process are to be maximized, market forces must do their work both at home and abroad. The international adjustment process must work -- which means appropriate signals being quickly transmitted among the various economic factors. This means using the market mechanism -- it means no artificial international straight-jacket. It also means that there is no conflict between policies for domestic and international stability -- both are the same.

Despite these lessons of the past several years -- which seem quite clear and obvious to me -- we still have a number of snake oil salesmen around hawking something called "exchange rate stability" as a criterion of "true monetary reform".

In rebuttal, I would simply like to point to the record. Where there has been a reasonable degree of what I call "empathy" between domestic economic developments in various countries, the rates of exchange of their currencies have tended to remain fairly stable. When wide divergence in economic performances have appeared, the exchange rates have also diverged. When evidence of economic mismanagement or lack of control emerges, the market reacts accordingly.

Thus, "take it up easy, boys" is also the prescription for stability in the international economy. It is the only way we can have sustained, noninflationary expansion in the world economy, without disruptive divergence in performance, with resultant disturbances in exchange and capital markets.

o0o

For Release 10:00 a.m. Tuesday, August 10, 1976

WHY NOT TRY THE TRUTH?

A REPUBLICAN'S CALL FOR A SERIOUS PARTY PLATFORM

By William E. Simon

"Political campaigns," James Harvey Robinson complained in 1937, "are designedly made into emotional orgies which endeavor to distract attention from the real issues involved, and they actually paralyze what slight powers of cerebration man can normally muster." Methods and results have not changed since then. The modern presidential race, from its kick-off in New Hampshire to its ceremonial culmination in Washington on Inauguration Day, is one long media carnival of color, charisma, sound, fury, and only an occasional stray fact.

The trend to vagueness in American politics has been building for many years and the major casualty has been the party platform as a significant statement of issues. In a country where presidential elections and the national destiny were once decided on the basis of platform issues (the organization of the economic system, the national banking system, tariffs, slavery and the fate of the Union itself, to name a few) most recent party platforms have been studies in political silly putty -- soft, shapeless heaps of meaningless rhetoric larded with impossible promises and intended to be all things to all people.

This is particularly true of the current Democratic Party Platform which has been made as elastic and amorphous as possible. What a sad comedown for the party of Harry Truman, who wrote in his memoirs that, "To me, party platforms are contracts with the people." Today, they are not so much contracts as long strings of eloquent loopholes. Nor have Republican Party Platforms been any more effective in communicating the substance of issues to the American electorate. The recent tendency has been for both candidates and parties to try to "out vague" each other, thereby hoping to capture most of the middle ground and a generous share of both fringes. There have been times when this tactic has worked. I believe, however, that it would be a fatal mistake for the GOP to pursue this strategy in 1976.

The only way for the Republican Party to emerge from the threat of permanent underdog status is to take a clear

stand on the crucial issues that our natural constituency -- and all Americans -- can understand and support. Instead of merely creating a variation of the other party's program or once again simply repeating everything we are opposed to, I believe we can cut through the formless Democratic claims by adopting a clear, hard-hitting platform.

Abraham Lincoln, the first Republican President, said: "I have faith in the people ... The danger is in their being misled. Let them know the truth and the country is safe." It is high time we adhered to this maxim of Lincoln's and appealed to the basic good sense and hunger for the truth that most Americans share.

The alternative is to limp out of a potentially bitter convention battle with a watered-down imitation of the Democratic Platform and the unappealing prospect of having to out-charm and out-obfuscate an effective opponent.

For the grim statistics are inescapable -- from an almost even split with the Democrates in the early 1940's, the national political balance has tilted to the point where, in George Gallop's latest (May 1976) measuring of party identification, Democrats outnumber Republicans by more than 2 to 1 (46% to 22% with the remaining 32% independent). And Governor Carter's appeal as a native son threatens to deeply erode the Democratic crossover vote in the South that helped the GOP to capture the White House in both 1968 and 1972. Add to this the fact that Republican strength in the Senate, the House, State legislatures and governors' mansions is at its lowest ebb since the election failure of 1964 and it becomes clear that this is not the time for the writing of an insipid campaign platform because such a political "business-as-usual" approach would only perpetuate the more than a generation of Republican decline.

Since the Great Depression, the GOP has elected only two Presidents. One of them, Dwight Eisenhower, was perceived by most of the public as an apolitical war hero; the other, Richard Nixon, was narrowly elected in 1968 on a wave of public revulsion at the mishandled Vietnam War, domestic violence and chaos, and the broken promises of the New Frontier and the Great Society. Furthermore, 1968 was far from a total victory -- the narrow election of a Republican President was offset by the election of Democratic majorities in both houses of the Congress. The country clearly wanted a breathing spell after eight frenetic and disillusioning years of Democratic Presidents. But the GOP itself did not capture the imaginations or sympathies of most voters. A majority cast their ballots for either Hubert Humphrey or George Wallace for the Presidency and they continued to favor Democratic House and Senate candidates.

Things moved a step closer to a new Republican consensus in 1972. But there, too, Democratic folly -- in this case the party's temporary capture by George McGovern's New Left disciples -- may have had as much to do with the outcome as Republican efforts. The Administration's popular foreign policy initiatives and its other positive domestic achievements deserve a large part of the credit for the Republican victory in 1972, but it only reached landslide proportions because millions of Democrats and Independents feared and distrusted what they perceived to be the dangerous and foolish radicalism of McGovern positons on everything from foreign policy to expanded social programs. However, despite the one-sided Presidential returns, the same voters returned strong Democratic majorities in both the Senate and the House of Representatives.

Throughout the first term of the Republican Administration, the President found it necessary to trade off many domestic Republican policies and goals in order to carry out his foreign policy. Given the composition of the Congress, compromise was perhaps inevitable, but it led to the disillusionment of many conservative supporters, Republican, Democratic and Independent alike, who saw government spending and the national debt continue to escalate and government programs, regulations and red tape continue to proliferate. The overall domestic track record was a striking case of what columnist Pat Buchanan has called "Conservative Votes, Liberal Victories." As he points out in his recent book of the same title:

> "...looking back at the budget, economic and social policies of the Republican years, it would not be unfair to conclude that the political verdict of 1968 had brought reaffirmation, rather than repudiation, of Great Society liberalism."

The Republican Record

In early 1973, before his administration began to wither as a result of the Watergate crisis, President Nixon put a great deal of effort into reshaping domestic policy. His State of the Union Address, and the detailed proposals that followed it, were true to genuine Republican principles. Bolstered by his election landslide, the President launched an all-out "Battle of the Budget" intended as the first stage in a long series of domestic Republican initiatives that would cut back the runaway growth of big government and restore the Nation to fiscal stability. But this promising beginning of a policy geared to what conservative political analysts like Kevin Phillips had heralded as an "Emerging Republican Majority" went up in smoke.

By mid-1974 the culmination of a decade of economic policy errors by the Executive Office and Congress and the external shocks of severe oil and food price changes had created the worst recession in forty years in the U.S. economy. When Gerald Ford became President in August the economic outlook was bleak; the output of goods and services was falling rapidly; inflation had risen to extraordinary double-digit levels; employment opportunities had stagnated and the unemployment rate was beginning to rise; housing, personal spending and business capital investment were all deteriorating; the international economy was in disarray as the negative effects of unprecedented oil and food price changes contributed to the growing recession pressures; and a widespread collapse of confidence occurred.

The President immediately committed his full attention to restoring economic stability. The Economic Policy Board was created and assigned the task of designing policies that would control the extraordinary inflation pressures and restore economic growth to reduce unemployment. A sense of discipline was returned to government spending decisions and the President's recommendations were backed up by vetoes which the mood of the people forced Congress to sustain. A well-timed package of tax relief was proposed by the President and eventually passed by Congress. Support for responsible monetary policies was given to maintain the important independent role of the Federal Reserve System. Most important, the Administration resisted the strident calls for massive new spending programs, double-digit money supply growth rates, a return to wage and price controls and the appeals of numerous special interest groups pleading for unique treatment. This courageous course was severely criticized by our opponents who insisted that the country was on the verge of an economic collapse. But the wisdom of our policies is now demonstrated by the actions of these same critics who now claim credit for the results of our policies.

The important point is that responsible fiscal and monetary policies were adopted at the right time and then sustained. The results are clear: the U.S. economy is now well into the second year of a strong and balanced recovery that has spread throughout the entire system; inflation is now less than one half the level that existed when the policy changes were made; employment has increased approximately 3-1/2 million persons and the unemployment rate has declined; and international monetary and trade conditions have improved significantly. This is not to say that our problems are over -- that is merely idle rhetoric. Inflation pressures are still intense; unemployment is far too high; Federal spending continues to rise too rapidly; and specific internationa trade and investment problems persist. <u>But the irrefutable evidence is that responsible fiscal and monetary polices are moving us in the right direction and confidence in the U.S.</u>

economy at home and abroad has been restored. While this strong recovery may be taken for granted by some, I believe it is the direct result of the positive actions taken by President Ford and the explicit avoidance of the discredited policies of the past that our critics so strongly urged us to adopt. We now have the best prospects for sustained economic progress that have existed for many years. What actually happens will, of course, depend on current policy decisions which, in turn, will be shaped by our Republican Party Platform decisions and the November elections.

It is to President Ford's great credit that, despite the sweeping Democratic gains in the 1974 Congressional elections, he has successfully rallied the Republican minority in the Congress and used the power of the veto to fight inflation and recession and lead America to a healthy, balanced economic recovery. If all the massive spending measures advocated by the Democratic majority in the past two years had become law, we would today be on our way to an accelerating rate of inflation followed by a deeper recession. Nevertheless, the Democratic Party Platform is based on the same discredited policies of spend-spend, elect-elect, inflation, controls, bigger and bigger government syndrome that has been at the very root of our economic problems during the postwar period, especially the past ten years, and still remains alive and well in Washington today.

This platform should really be called "Promises Promises Promises," for just like Santa Claus, and like all the platforms from years past, it has something for everybody. The trouble is, playing Santa with the taxpayer's money dispenses neither good will nor integrity. The only thing it does dispense is pure hypocrisy.

There has been a lot of talk this year about politicians who don't keep their promises, who have lost the trust of the American people, and who have forgotten the meaning of the simple word, integrity. Yet even though our opponents are using all those key words, it's clear to me from studying their platform that a genuine committment to reality is lacking.

Take a look at the platform and see what it calls for:
Guaranteed jobs for all at government expense;
national economic planning;
national day care systems;
a mandatory national health system;
a phased-in federal takeover of welfare;
entirely new programs for transportation;
new public needs employment programs for the cities;
substantially increased federal payments to education;
countercyclical aid to state and local governments;

more federal subsidies for public housing;
higher commodity prices for farmers, yet lower food prices for consumers. And then to top it all off, we're promised a balanced budget. Isn't it wonderful? There's more money for literally everything that lives and breathes. But what it all adds up to is bigger and bigger government, higher and higher inflation, and eventually more unemployment and greater economic instability.

And in all of this, mind you, not a word about who would pay for all these programs or even how much they would cost. Well they do cost, and they're going to cost a lot, because there is no such thing as a "free" lunch or "free" education, or free" health care. In fact there is no free anything.

The 1976 Democratic Platform might well add another $200 billion in annual government spending and could, if implemented, create serious and protracted economic problems. The costs in the Platform could amount to nearly $1000 in new federal spending for every man, woman and child in the United States and would create real risks of a return to double-digit inflation which would rapidly erode the savings, earnings and economic security of all Americans. Hardest hit of all would be low-income Americans and those who, like many of our senior citizens, live on fixed incomes.

In addition to a vastly expanded spending program the Democratic Platform calls for more credit at "favorable" terms to "needy" groups, and a much closer "coordination" of Federal Reserve credit policies with the objectives of the Congress and the President. No matter how rationalized, these monetary proposals are nothing more than a veiled call for more money creation and for greater government influence in the credit allocation process. And to those who would be so liberal in spending other people's money and who are fond of quoting from the economist John Maynard Keynes, I suggest to them that they not forget a very critical passage in the book by Lord Keynes on the Versailles peace conference: "Lenin is said to have declared that the very best way to destroy the Capitalist System was to debauch the currency ... Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one in a million is able to diagnose."

If we remove the last vestige of independence from the Federal Reserve, we will be encouraging the politicians to print more money as soon as any economic difficulty appears. The moment the politicians get their hands on the mechanism of the money supply is the moment when you begin to destroy

the economy and the society. At that moment they can pay for everything and account to no one. Just think of where we would be today if we had acquiesced to the persistent calls last year for double-digit growth in the money supply.

The fallacy of this irresponsible fiscal and monetary approach is clearly demonstrated by the record of economic performance. In the mid-1960's the United States began an unfortunate series of economic booms and recessions: serious overheating of the economy created severe price pressures; accelerating inflation caused recessions by restricting housing construction, personal spending and business investment; the recessions created unwanted unemployment which wasted resources and caused personal suffering; rising unemployment too often triggered fiscal and monetary policies setting off another round of excessive stimulus leading once again to overheating -- inflation -- recession -- unemployment and even more government intervention.

One reason we have had so much instability is the excessive stimulus provided by government fiscal policies. For many years political leaders have tried to convince the electorate that a central government can identify, solve and pay for the problems of society -- right now. In Fiscal Year 1966 Federal outlays totaled $135 billion; by Fiscal Year 1974 expenditures had doubled to a level of $268 billion. During the next two fiscal years -- 1974 to 1976 -- Federal spending increased 36 percent to a level of $365 billion. Another large increase will occur in Fiscal Year 1977, particularly if the President's recommendations are rejected and the Congressional target of $413 billion is actually fulfilled.

The government is now growing much faster than our ability or willingness to pay for it. The Federal Government will have reported a deficit in sixteen of the past seventeen fiscal years -- or thirty-nine of the last forty-seven -- at yearend Fiscal Year 1977. During the single decade of Fiscal Year 1968 through Fiscal Year 1977, the cumulative Federal deficits will total approximately $250 billion. In addition, net borrowings to support over one hundred "off-budget" programs, not even included in the Federal budget, will total at least another $230 billion. That means that Federal demands on the financial markets will total almost one-half of a trillion dollars in a single decade. The reality of these chronic Federal deficits must be compared with the consensus view that the budget must be balanced over time if we are to achieve the levels of capital investment considered necessary to return to and sustain full employment. The strong underlying growth trends in the U.S. economy will provide for economic progress but the basic challenge of allocating total resources is becoming even more difficult.

Every independent study that has been done clearly points to the need for a higher share of our GNP to be used for investment if we are to find productive jobs for all who want to work. There is no way to accomplish this if the Federal Government does not eliminate its deficits and thus its demands on financial markets. The need to restrain excessive Federal spending is based on the economic fact that savings must be available to finance the needed investment as well as to contain the inflation. This is the only way to create stable conditions that will make the current expansion long lasting.

It doesn't take a Ph.D. in economics to realize that the Federal Government has become the nation's biggest single employer, its biggest consumer, its biggest borrower, and also the biggest source of inflation in the United States economy. A Democratic Congress in cooperation with a Democratic President like Governor Carter, who has already committed himself to massive new spending programs including a compulsory national health plan, the Humphrey-Hawkins bill guaranteeing a job for every American at government expense if necessary, massive Federal aid to the cities, and a nationwide system of child care centers, would inevitably follow this economic game plan -- which is a blueprint for disaster.

Yet here we are, only a few months away from the 1976 elections and, despite the contrast between President Ford's performance and an abysmal Democratic legislative record, that party is heavily favored in the polls to hold its strong majorities in the House and Senate and to recapture the White House. Meanwhile, President Ford and Governor Reagan are engaged in a down-to-the-wire battle for the GOP nomination. And once that decision is made -- and regardless of its outcome -- the Republican Party will have to face the most unified Democratic Presidential effort mounted since the days of Franklin D. Roosevelt.

THE NEED TO SHARPEN THE REPUBLICAN IMAGE

How did we reach this point? "The trouble with the Republican Party," as Woodrow Wilson once observed, "is that it has not had a new idea for 30 years. I am not speaking as a politician," he added. "I am speaking as a historian." Well, it has been another 51 years since Woodrow Wilson made his observation and I am afraid it still holds true, at least in the minds of a growing number of voters.

As far as they are concerned, the Republican Party, except for its good record in avoiding wars (only a potent issue while the guns are still smoking), stands for very little indeed. It isn't so much that the average voter thinks the GOP is too conservative or needs more "bleeding

hearts"; the problem is that he thinks we ignore, do not relate, and are irrelevant to, the average American, who, ironically, is still a pretty conservative, very commonsense fellow. Too many voters see the GOP not as a party, but as a narrow, vested interest -- a barely disguised front for big corporations, bankers and the Chamber of Commerce. Unfortunately this misconception is as potent as it is false.

By contrast, since the 1930's the Democratic Party has managed to hold the loyalties of millions of blue collar workers, liberal elitists and regional, ethnic and racial minorities who bury their individual differences to coexist under the Democratic umbrella when the time comes to vote. The GOP has been unable to coalesce an equally potent, cross-class, inter-regional appeal over the same time period. Even our traditional base constituency of skilled workers, farmers, white collar workers and business and professional people -- the expanded American middle class that covers such a broad social and economic share of our population -- has been severely shaken by Watergate and our failure (due in large measure to overwhelming Democratic Congressional opposition) to fully match our domestic policy to our political rhetoric during eight years in the White House. In addition, looking further down the road, more and more of the sons and daughters of this potential Republican power base are demonstrating their lack of faith in either party by registering as Independents.

But more immediately to the point, the GOP has not done a very good job of serving this natural Republican constituency. As Senator Bill Brock of Tennessee recently put it,

> "There is much frustration in our natural base -- the small businessman who is being driven crazy by bureaucracy and regulation ... lots of them are saying it doesn't matter who's in charge in Washington; no one can stop it. We've failed to pay attention to older Americans, to the suburbs, to the urban communities. By accident or design, we're driving people away from participation."

What will it take to turn the party -- and its potential majority constituency -- away from the road to political extinction? It will require more than an attractive candidate. It will require a commonsense appeal to the American voters -- a platform that is a genuine contract with the people and a commitment to more than vague good intentions. We need to spell out, in plain language, what we stand for and what we believe in.

THE REPUBLICAN PHILOSOPHY

Where should we stake out our ideological ground? To begin, we believe in the maximum possible individual freedom and the minimum possible degree of government interference in the lives of our people. We recognize that many of the social programs created in recent years are necessary and will continue although the cumbersome and costly delivery system needs to be greatly improved. But there is no reason why America, under effective Republican leadership, cannot develop a conservative form of compassionate government which meets basic human needs with an emphasis on individual freedom of choice and a heavy reliance on the productivity and economic vitality of our free enterprise system rather than massive government planning, control and taxation.

We have reached the point where most Americans expect some form of government action to help them cope with problems like old age, illness and unemployment. But that does not mean that the growth of massive government programs should follow from such a commitment.

Instead of trying to do a little less, a little later than the Democrats, we must have a positive program of our own. It does not have to be complicated to be effective. But it does require an underlying commitment and compassion for those who genuinely need help. The periodic distortions of the economy by excessive government spending and exaggerated growth in the money supply is unwise -- not compassionate. In fact, the very people who are supposed to be helped by such action are usually the ones most hurt by the economic problems created.

Some observers call this message negative and hard-hearted. These so-called compassionate people say we are callous and unsympathetic to be against massive new spending, to be against huge deficits, and to be against the government running our lives. I am sorry, but I respectfully disagree.

There is no such thing as true compassion without responsibility; to show true concern, we must take into account not only the short-term effects of our actions but the long-term as well. The suggestions that we simply spend and spend are precisely those which have, over the years, hurt the poor and the disadvantaged the most. It would be a grave injustice to the people of this Nation, and especially to those who deserve a helping hand, to continue down the path when we know from experience that the short-term prosperity we buy now will be followed by years of even greater hardship and suffering tomorrow. It is time in these United States to put our economy back on a sound, steady footing so that people may have lasting jobs and lasting hope for the future.

Do we want more freedom of choice and more freedom of individual action? Or do we want to see the economic freedoms and all the other individual freedoms we hold so dear gradually erode under more and more government encroachments on our lives? That is the crucial decision behind the rhetoric and personalities of this election year. And the choice we make will affect not only our own futures, and our children's, but the future of our country as America embarks on its third century as the hope and inspiration of free people everywhere.

The commitment to a positive program should be linked to five explicit policy goals:

* Prosperity and economic growth through encouragement of the private sector that provides five of every six jobs in America and generates the abundance that pays for government as well.

* Skillful management of economic affairs by creating an environment of sustained, non-inflationary growth which will benefit every man, woman and child in our country.

* Reducing the growth of runaway government which more and more Americans recognize as the biggest single domestic problem facing our country today.

* Lowering the level of taxation in America. Taxes are too high for almost everyone. We must reduce the overall level of taxation so that our vital economy and society are spared the deterioration we have seen in other societies where the state has consumed an ever larger part of the national product.

* Government leaders should pay less attention to special interests and more to the general interest by emphasizing national economic priorities in developing legislation.

In general, these priorities involve an integrated set of goals involving improving the real standard-of-living, maximizing employment opportunities, stabilizing prices and maintaining a free and open international trade and investment system. But these general goals must be converted into specific economic policies. For example, if we are going to create the kind of jobs that will keep people permanently employed, that will meet the needs of a growing labor force and that will reduce our inflation by expanding our output of goods and services, then we must equip our workers with new and efficient plant, machinery, and tools. These capital needs of the future are staggering, about $4-1/2 trillion in the next decade -- or about three times as much as we spent in the last decade.

Savings are the source of this needed capital. But savings are currently being drained by excessive government deficits. Resources absorbed by government for its spending today cannot simultaneously be invested in expanded plant and machinery to employ more people tomorrow. We cannot have both bigger government and a healthy expanding private sector as our opponents would have us believe. Governments don't create wealth -- people do. We cannot continue to transfer each year an increasing percentage of our national wealth from the most productive to the least productive sector of our economy without endangering our economic future.

If we're really sincere about providing more productive and lasting jobs for our economy we will only succeed by strengthening our free enterprise system. Many areas would be affected, but two would be particularly affected, taxes and welfare. The goal for both would be the same: equity, efficiency and simplicity.

As they are now constituted, America's tax and welfare systems are a national disgrace. Our complex, contradictory and inequitable tax laws are a boondoggle for lawyers and accountants and sheer hell for everyone else. Successive Democratic Congresses have tinkered with tax legislation to curry favor with pressure groups, court temporary popularity at election time, and generally wreak havoc with the economy. The result has been economic instability and taxpayer distrust and frustration. It is time to restructure the tax system to provide more equity and tax relief for every American taxpayer.

Our welfare system has been equally disastrous, both socially and economically. It degrades millions of our citizens; it wastes billions of dollars through inefficiency and duplication of effort; and it offers welfare recipients little or no encouragement to build meaningful, productive lives for themselves and their families. The Administration has done its best to improve the operation of the welfare system through administrative rulings but basic reform requires a comprehensive revison of the existing maze of individual programs. This reform should include rigorous work requirements for those able to work and incentives to allow marginal earners to seek employment or stay on the job while receiving needed assistance.

A sound Republican platform could also harness private sector know-how to replace cumbersome and wasteful government programs in the area of job training, especially for minorities and the underprivileged. Let me give you one striking example of how a few highly motivated community leaders with a sound understanding of private sector job requirements began an organization that has since helped hundreds of

thousands of potential welfare recipients to become productive members of Society. In 1964 Reverend Leon H. Sullivan, a black pastor and civic leader, founded the first Opportunity Industrialization Center in an abandoned jailhouse in a high crime section of North Philadelphia. His aim was as simple as it was important -- to avoid bureaucratic red tape and waste, and to provide relevant job training and placement with maximum efficiency at a minimum cost.

The success of Reverend Sullivan's program was such that there are now local OIC affiliates in every part of the country. And between 1964 and 1975 the program trained 353 thousand men and women and placed 250 thousand in jobs with an impressive 85% retention rate. These OIC-trained and placed workers earned nearly $5 billion during the same period, paid $600 million in Federal taxes and saved the taxpayer $1.5 billion in potential welfare payments.

OIC is not now and never should become a political football. But it is the kind of effective, private sector-oriented approach to job training and underprivileged minorities that a Republican Platform should espouse in place of multi-billion dollar Democratic proposals for federal employment boondoggles.

Another area rich in potential for a solid Republican Platform is the whole range of Federal deregulation. Year after year the Federal regulatory bureaucracy, with a will and a life of its own, and with the support of a wide range of special economic and political interest groups, has grown like toadstools after a heavy rain. Today the Federal regulatory apparatus employs an army of 100 thousand people and costs the private sector (ultimately, the American consumer) $40 billion a year just to fill out forms.

President Ford has worked long and hard for regulatory reform despite Congressional opposition. A serious Republican Platform should carry on this work and call for an across the board cost-benefit analysis of all Federal regulatory agencies to determine which ones provide needed services to the public which justify their costs. Those that do not should be abolished for the sake of consumers, businessmen, employees and taxpayers.

Deregulation is only one of many "sleeper" issues that could rally support from millions of Americans -- but only as part of a clearly enunciated Republican Platform. Other platform planks should deal forcefully and directly with:

* Congressional Reform: Major surgery is required to correct the inefficient and all-too-often obstructionist system of Congressional operations that has built up

under the Democratic Congressional power monopoly of more than a generation. The platform should also provide for the closest possible coordination and cooperation between GOP Presidential and Congressional candidates. No matter what initiatives to achieve economic goals are made by the President the actual legislation -- including the control of spending -- requires a responsive Congress. Winning the White House without making substantial gains in the Congress would be a hollow victory at best; an effective Republican President can only excel with strong Republican Congressional support on the legislative front.

* A Thorough Study of Federal/State/Local Relationships: Because of the vast changes in government, society and the economy, and because of the complex variety of legislative and administrative measures that are now a part of government at all levels, a thorough examination of the relationship between the three layers of government is now long overdue. The findings would make it possible to tailor future legislation and planning to reality rather than rhetoric, and would clearly re-define limits and distinctions that have become blurred by sloppy legislation and ambiguous court rulings.

* Automatic Phaseout of Redundant Government Programs and Personnel: Most Federal programs should have an automatic phaseout date and face automatic elimination, like Federal regulatory agencies, unless their extended existence can be justified on a regular, periodic basis. The burden of proof should lie with the programs and bureaucrats who soak up billions of dollars in revenues, not with the taxpayers who foot the bill.

* Renewed Emphasis on the Private Sector as the Basic Source of Economic Productivity and Creativity: Despite the demonstrated superiority of the free enterprise system there has been an ominous trend toward greater government control and even ownership in some cases. Specific examples include the unfortunate experience with wage and price controls in the early 1970's, repeated efforts to control the allocation of capital through legislation, the arbitrary establishment of numerous environmental standards before necessary cost/benefit studies are prepared, and the general spread of restrictive regulations. In a more general sense, legislation has been proposed to increase central government planning for the allocation of resources in the entire economy. The Republican Party Platform should categorically reject these counterproductive measures.

* Maintenance of a Free and Open World Trade and Investment System. Considerable success has been achieved on international monetary reform and multilateral negotiations for improving the framework of trade. The United States will continue in its efforts to create a free and open trade and investment system.

Reforms like these must be made if America is to survive as a free and prosperous nation and fulfill its leadership role in the world community. All of them directly address the issue that is fast becoming the main public concern of our times -- the accelerating growth of big government and the resultant loss of personal and economic freedom. The Democratic Party Platform would result in the explosive growth of big government in America. We should stress that the Republican Party favors allowing the American people to keep more of their own money to spend as they please, whereas the Democratic Party would have the Federal Government spend the people's money for them. This is the real choice between the Democratic and Republican Party Platforms. The Republican approach is to emphasize the individual. The Democratic approach is to emphasize bigger government. A few Democratic Party leaders pay half-hearted lip service to the idea of dismantling their own monster. But, like Doctor Frankenstein, their hearts really aren't in it; it's their baby and their political status quo. Governor Carter, who originally preached so effectively against Washington and big government is evidently prepared to enlarge their domain significantly.

Only a united, revitalized Republican Party, running on a detailed, well thought-out and clearly enunciated platform, can achieve the kind of political and economic reform our country needs and our people want. But time is running out. The national elections in November may be the last opportunity our party will have to stem the tide of big government and thinly-disguised state socialism as practiced -- if not preached -- by the Democratic Party.

"Those who won our independence," wrote Justice Louis Brandeis, "believed that the final end of the State was to make men free to develop their faculties ... They valued liberty both as an end and as a means. They believed liberty to be the secret of happiness and courage to be the secret of liberty."

What the Republican Party needs today is the courage of its convictions -- a renewed belief in the fundamental truths of liberty that the Party of Lincoln embodies, along with the guts and vision to take the truth to the people. We can only succeed if we act as statesmen instead of politicians, if we build and expound a platform of programs instead of platitudes and offer serious ideas and practical policies based on common sense and common decency.

Is the Republican Party finished? An awful lot of people seem to think so. But, if we are failing, it is because, in a very real sense, we have not yet begun to fight. For unless we enunciate and battle for our principles, we cannot reasonably expect the American people to give us the mandate we need to govern effectively.

And whether we succeed or fail, much more is at stake than just the future of our party. The issues have never been more clearly explicit; we must keep them from getting buried in the superficialities of a political campaign.

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

FOR IMMEDIATE RELEASE August 10, 1976

SUMMARY OF LENDING ACTIVITY

July 16 - July 30, 1976

Federal Financing Bank lending activity for the period July 16 through July 30, 1976, was announced as follows by Roland H. Cook, Secretary:

The Federal Financing Bank made the following loans to the Tennessee Valley Authority:

Date	Amount	Maturity	Interest Rate
7/16	$ 55,000,000	10/29/76	5.338%
7/30	160,000,000	10/29/76	5.395%

The proceeds of the loans were used to repay $135 million in notes with the Bank and to raise additional funds.

On July 16, the Bank purchased from the Secretary of the Treasury the following New York City loans made under the New York City Seasonal Financing Act of 1975:

Note	Amount	Face Amount (millions)	Interest Rate	Final Maturity	FFB Rate of Return
9	$150,954,962.42	$150	7.02%	4/20/77	6.145%
10	201,403,013.74	200	7.10%	5/20/77	6.225%

The notes were purchased with the right of recourse against the Secretary of the Treasury.

The Federal Financing Bank made the following loans to utility companies guaranteed by the Rural Electrification Administration:

Date	Borrower	Amount	Maturity	Interest Rate
7/20	South Mississippi Electric Power Assn.	$5,950,000	7/24/78	7.043%
7/26	Murraysville Telephone Co.	400,000	7/26/78	7.063%
7/30	Southern Illinois Power	1,725,000	7/30/78	6.925%
7/30	Big Rivers Electric Corp.	1,188,000	12/31/10	8.188%

Interest payments on the above REA loans are made on a quarterly basis.

WS-1022

On July 21, the FFB purchased the following debentures from Small Business Investment Companies:

Borrower	Amount	Maturity	Interest Rate
Doan Resources Corp.	$ 700,000	7/1/81	7.725%
Small Business Investment Co. of Connecticut	320,000	7/1/81	7.725%
Enterprise Capital Corp.	500,000	7/1/86	8.085%
ESIC Capital, Inc.	1,100,000	7/1/86	8.085%
Iverness Capital Corp.	1,500,000	7/1/86	8.085%
Mome Capital Corp.	350,000	7/1/86	8.085%
Monmouth Capital Corp.	1,000,000	7/1/86	8.085%
Small Business Assistance Corp. of Panama City, Fla.	640,000	7/1/86	8.085%
Winfield Capital Corp.	300,000	7/1/86	8.085%

These debentures are guaranteed by the Small Business Administration.

On July 21, the Bank purchased from the Department of Health, Education and Welfare Series E notes in the amount of $175,000. The notes mature July 1, 2000, and bear interest at a rate of 8.214%. The Department had previously acquired the notes which were issued by various public agencies under the Medical Facilities Loan Program. The notes purchased by the FFB are guaranteed by HEW.

The Federal Financing Bank made the following advances to borrowers guaranteed by the Department of Defense under the Foreign Military Sales Act:

Date	Borrower	Amount	Maturity	Interest Rate
7/21	Government of Peru	$ 6,800,000.00	12/31/82	7.593%
7/23	Government of Nicaragua	240,000.00	6/30/80	7.239%
7/28	Government of Jordan	1,944,765.82	6/30/85	7.720%
7/29	Government of Israel	29,573,562.72	6/10/85	7.730%
7/30	Government of Jordan	582,839.19	6/30/85	7.714%

On July 26, the U.S. Railway Association (USRA) borrowed from the Bank $685,000 against Note #6. The maturity of the loan is December 26, 1990. The interest rate, set at the time of the first advance, is 8.055%.

On July 30, the USRA rolled over Note #3 in the amount of $1,024,296.22 and borrowed $4,707.83 to pay the interest due. The loan matures August 29, 1976 and bears interest at a rate of 5.394%. USRA borrowings from the FFB are guaranteed by the Department of Transportation.

The National Railroad Passenger Corporation (Amtrak) made the following drawings from the FFB:

Date	Note #	Amount	Maturity	Interest Rate
7/26	6	$ 10,000,000	10/1/76	5.432%
7/29	9 (rollover)	120,000,000	10/28/76	5.392%
7/30	6	10,000,000	10/1/76	5.423%

Amtrak borrowings from the Bank are guaranteed by the Department of Transportation.

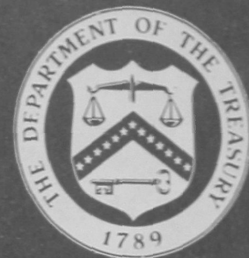
On June 21, the Chicago, Rock Island and Pacific Railroad Company signed a $17.5 million commitment agreement with the Bank. Interest rates are determined at the time of each advance. The final maturity of all advances is June 21, 1991. On July 28, the FFB made an advance to the Railroad in the amount of $828,722. The interest rate is 8.145%. Chicago, Rock Island and Pacific Railroad Company borrowings from the Bank are guaranteed by the Department of Transportation.

On July 27, the Student Loan Marketing Association (SLMA) borrowed $20 million from the Bank. The loan matures October 26, 1976 and bears interest at a rate of 5.461%. The proceeds of the loan were used to repay $20 million in principal. SLMA borrowings are guaranteed by the Department of Health, Education, and Welfare.

Federal Financing Bank loans outstanding on July 30, 1976 totalled $24.1 billion.

o0o

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE AT 4:00 P.M. August 10, 1976

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 $6,100 million , or thereabouts, to be issued August 19, 1976, as follows:

91-day bills (to maturity date) in the amount of $2,500 million, or thereabouts, representing an additional amount of bills dated May 20, 1976, and to mature November 18, 1976 (CUSIP No. 912793 C2 0), originally issued in the amount of $ 3,503 million, the additional and original bills to be freely interchangeable.

182-day bills, for $3,600 million, or thereabouts, to be dated August 19, 1976, and to mature February 17, 1977 (CUSIP No. 912793 E6 9).

The bills will be issued for cash and in exchange for Treasury bills maturing August 19, 1976, outstanding in the amount of $ 6,106 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,801 million. 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, August 16, 1976. 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

WS-1023

(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.

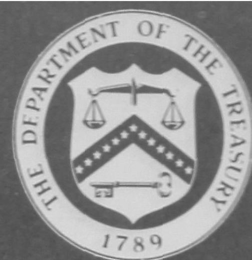
Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, 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 $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 August 19, 1976, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 19, 1976. 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.

o0o

he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE August 12, 1976

LIEBLING LEAVES TREASURY
FOR CHAIR AT LAFAYETTE COLLEGE

Secretary of the Treasury William E. Simon announced today that Herman I. Liebling, a senior economic advisor and Deputy Director of the Treasury's Office of Financial Analysis will leave the Department on August 31, 1976 to join Lafayette College in Easton, Pennsylvania as the Frank Lee and Edna Smith Professor of Economics and Business.

Secretary Simon stated that he "personally will miss Mr. Liebling's invaluable insights concerning economic and financial developments. His advice has been and is reflected in our national economic growth and stablilization policies. I certainly regret the loss to the Treasury, but I am pleased that he will occupy a Chair at as outstanding an institution as Lafayette College."

Secretary Simon noted that on several occasions during his tenure, Mr. Liebling counseled economic policy which went against conventional thinking, but in retrospect has been proved correct: In mid-1962, Mr. Liebling counseled against a quick tax cut to avoid a predicted recession, which didn't materialize; favored a tax increase as early as mid-1965 to pay for Vietnam expenditures; foresaw that the 1968 tax surcharge would not cause a recession as many were warning; rejected over-stimulative policies in early 1975, having recognized that the economy was already bottoming out.

Mr. Liebling was the Treasury's representative on the Federal inter-agency "Troika" group, whose function is to formulate economic forecasts for presentation to the President's Economic Policy Board.

He received the Meritorious Service Award of the Treasury Department for "his skill in discerning changes in basic economic forces in the economy and his ability in forecasting the future performances of the economy...to make possible economic policy decisions."

Mr. Liebling also served as a U.S. representative on Article VIII Consultations with the IMF, a delegate to the Short-Term Forecasting Group of the OECD, and AID advisor to the Finance Ministry of the Government of Morocco, and a deputy to the President's Cabinet Committee on Price Stability.

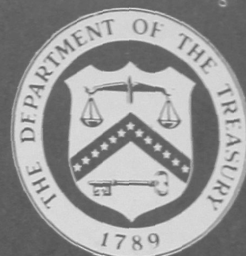
WS-1024

Mr. Liebling also was Senior Lecturer, with the equivalent rank of full professor, at the University of Maryland. He is the author of many articles in scholarly journals and books.

A native of New York City, Mr. Liebling attended public schools there and received his MA and Ph.D degrees in economics from The American University in Washington, D.C. He and his wife, the former Mabel Barbara Rudman of Jamaica, New York, have two children.

oOo

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE AT 4:00 P.M. August 12, 1976

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for $2,900 million, or thereabouts, of 364-day Treasury bills to be dated August 24, 1976, and to mature August 23, 1977 (CUSIP No. 912793 H3 3). The bills will be issued for cash and in exchange for Treasury bills maturing August 24, 1976.

This issue will not provide new money for the Treasury as the maturing issue is outstanding in the amount of $2,900 million, of which $2,120 million is held by the public and $780 million is held by Government accounts and the Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities. Additional amounts of the bills may be issued to Federal Reserve Banks as agents of foreign and international monetary authorities. Tenders from Government accounts and the Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities will be accepted at the average price 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, Wednesday, August 18, 1976. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without

(OVER)

deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $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 August 24, 1976, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 24, 1976. 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.

oOo

Removal Notice

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

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Federal Reserve Bank of St. Louis https://fraser.stlouisfed.org

Removal Notice

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

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

Volume:

Page(s):

URL:

Federal Reserve Bank of St. Louis https://fraser.stlouisfed.org

Removal Notice

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

Citation Information

Document Type:

Number of Pages Removed:

Author(s):

Title:

Date:

Journal:

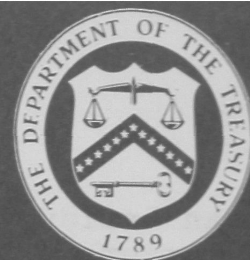
Volume:

Page(s):

URL:

Federal Reserve Bank of St. Louis https://fraser.stlouisfed.org

he Department of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE

Contact: David R. Macdonald
Extension: 2033
August 13, 1976

TREASURY ANNOUNCES FINAL DETERMINATION FOR AUTOMOBILE ANTIDUMPING CASES

Assistant Secretary of the Treasury David R. Macdonald announced today that final determinations had been made in the Treasury Department's Antidumping investigations of automobile imports. The actions announced today discontinue the investigations as to 23 firms and terminate the investigations as to 5 firms. In those instances where an investigation has been discontinued the manufacturers' prices will be monitored by the Treasury Department for the next two years.

These investigations involving automobiles manufactured in 8 foreign countries (West Germany, the United Kingdom, France, Belgium, Italy, Sweden, Japan and Canada) were initiated on August 11, 1975 after the Treasury Department had received petitions from the United Auto Workers and Congressman John Dent of Pennsylvania, alleging that foreign automobiles were being "dumped" on the U.S. market and were injuring the domestic automobile industry. On May 4, 1976, Secretary of the Treasury William Simon announced that he was tentatively discontinuing these investigations on condition that certain commitments regarding future prices were received from the manufacturers involved. The actions announced today are as a result of the receipt by the Treasury Department of such commitments. Secretary Simon indicated at the time of his May 4 announcement that he was taking this course of action because of the unique circumstances which existed in the automobile industry during the period of the investigation (January 1 through August 31, 1975). The discontinuances were issued under a rarely used section of the Antidumping Regulations which authorizes such action whenever the Secretary concludes that there are circumstances on the basis of which it may no longer be appropriate to continue

WS-1026

an Antidumping investigation. An explanation of those circumstances was included in the Secretary's press release of May 4 and in the Federal Register notices of May 17, 1976, announcing the tentative discontinuances.

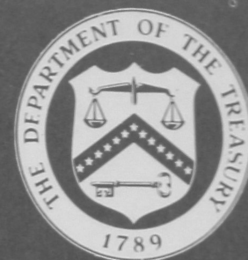
The 23 manufacturers who have been required to supply commitments to the Treasury Department had been found during the period of the investigation to have been pricing their automobiles in the U.S. market below their home market prices for comparable products. However, in the cases of Japanese and European manufacturers price adjustments since the end of the investigatory period along with changes in the relative values of currencies have eliminated these price differentials, as calculated under the special circumstances found to exist for the purposes of this investigation. In the case of several firms, specific additional price adjustments will be required on their 1977 models in order to comply with these commitments. In all cases these firms have pledged to maintain their relative prices in such a way as to assure that these price differentials do not reappear. Insofar as Canadian manufacturers are concerned pledges have been received to continue the elimination of price differentials within the context of the special circumstances created by the integration of the U.S. and Canadian industries.

Five of the manufacturers investigated (Honda, Nissan, Porsche, Rolls Royce and Toyota) were found not to be selling below fair value and as to those firms the investigation has been concluded and no future monitoring of prices will be required.

These cases collectively represent the most extensive Antidumping investigation ever conducted by the U.S. Treasury Department and encompassed trade amounting to $7.2 billion in 1975.

* * *

he Department of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE AT 12:00 P.M. August 13, 1976

TREASURY TO AUCTION $2,500 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $2,500 million of2-year notes to refund $1443 million of notes held by the public maturing August 31, 1976, and to raise $1,057million of new money. Additional amounts of these notes may be issued at the average price of accepted tenders to Government accounts and to Federal Reserve Banks for themselves in exchange for $219 million of maturing Treasury securities held by them and as agents of foreign and international monetary authorities for new cash only.

Details about the new security are given in the attached highlights of the offering and in the official offering circular.

Attachment

WS-1027

HIGHLIGHTS OF TREASURY
OFFERINGS TO THE PUBLIC
OF 2-YEAR NOTES

August 13, 1976

Amount Offered:

To the public	$2,500 million

Description of Security:

Term and type of security	2-year notes
Maturity date	August 31, 1978
Call date	No provision
Interest coupon rate	To be determined based on the average of accepted bids
Investment yield	To be determined at auction
Premium or discount	To be determined after auction
Interest payment dates	February 28 and August 31
Minimum denomination available	$5,000

Terms of Sale:

Method of sale	Yield auction
Accrued interest payable by investor	None
Preferred allotment	Noncompetitive bid for $500,000 or less
Deposit requirement	5% of face amount
Deposit guarantee by designated institutions	Acceptable

Key Dates:

Deadline for receipt of tenders	Thursday, August 19, 1976, by 1:30 p.m., EDST
Settlement date (final payment due)	
a) cash or Federal funds	Tuesday, August 31, 1976
b) check drawn on bank within FRB district where submitted	Thursday, August 26, 1976
c) check drawn on bank outside FRB district where submitted	Tuesday, August 24, 1976
Delivery date for definitive securities	Tuesday, August 31, 1976

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR IMMEDIATE RELEASE | August 16, 1976

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,500 million of 13-week Treasury bills and for $3,600 million of 26-week Treasury bills, both series to be issued on August 19, 1976, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing November 18, 1976			:	26-week bills maturing February 17, 1977		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	98.706 a/	5.119%	5.26%	:	97.290	5.360%	5.59%
Low	98.698	5.151%	5.29%	:	97.271	5.398%	5.63%
Average	98.700	5.143%	5.28%	:	97.275	5.390%	5.62%

a/ Excepting 2 tenders totaling $4,000,000

Tenders at the low price for the 13-week bills were allotted 67%.
Tenders at the low price for the 26-week bills were allotted 23%.

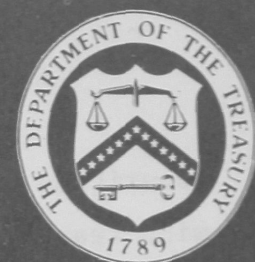
TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	:	Received	Accepted
Boston	$ 29,705,000	$ 22,705,000	:	$ 26,045,000	$ 8,045,000
New York	3,787,925,000	2,128,015,000	:	5,751,415,000	2,799,115,000
Philadelphia	30,840,000	17,405,000	:	8,915,000	5,715,000
Cleveland	33,340,000	30,670,000	:	258,630,000	138,630,000
Richmond	55,145,000	21,345,000	:	76,640,000	28,490,000
Atlanta	28,630,000	28,105,000	:	48,000,000	47,500,000
Chicago	295,220,000	109,045,000	:	560,435,000	392,185,000
St. Louis	46,115,000	26,835,000	:	61,745,000	25,745,000
Minneapolis	39,100,000	8,715,000	:	50,665,000	11,665,000
Kansas City	80,320,000	50,560,000	:	29,400,000	23,200,000
Dallas	20,315,000	19,315,000	:	29,855,000	18,085,000
San Francisco	304,325,000	39,525,000	:	339,245,000	104,245,000
TOTALS	$4,750,980,000	$2,502,240,000 b/		$7,240,990,000	$3,602,620,000 c/

b/ Includes $370,905,000 noncompetitive tenders from the public.
c/ Includes $171,995,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

WS-1028

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE AT 4:00 P.M. August 17, 1976

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 $6,200 million , or thereabouts, to be issued August 26, 1976, as follows:

92-day bills (to maturity date) in the amount of $2,600 million, or thereabouts, representing an additional amount of bills dated May 27, 1976, and to mature November 26, 1976 (CUSIP No. 912793 C3 8), originally issued in the amount of $3,602 million, the additional and original bills to be freely interchangeable.

182-day bills, for $3,600 million, or thereabouts, to be dated August 26, 1976, and to mature February 24, 1977 (CUSIP No. 912793 E7 7).

The bills will be issued for cash and in exchange for Treasury bills maturing August 26, 1976, outstanding in the amount of $6,230 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,789 million. 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, August 23, 1976. 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

WS-1029

(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.

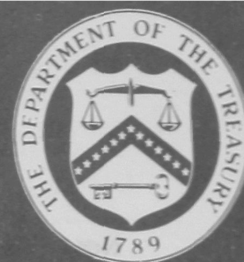
Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, 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 $ 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 August 26, 1976, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 26, 1976. 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.

o0'0o

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



ADDRESS BY THE HONORABLE ROBERT A. GERARD
ASSISTANT SECRETARY OF THE TREASURY
FOR CAPITAL MARKETS AND DEBT MANAGEMENT
BEFORE THE 1976 ANNUAL MEETING OF THE
AMERICAN BAR ASSOCIATION
SECTION OF LOCAL GOVERNMENT LAW
ATLANTA, GEORGIA
SATURDAY, AUGUST 7, 1976, 12:00 NOON

I am delighted to have the chance to be with you today. Unfortunately, given some other demands on my time, my stay in Atlanta will be very short. I say unfortunately not only because Atlanta is a beautiful City, but also because I'd hoped to stay long enough to pick up by osmosis some of the magical solutions -- the kind that cost nothing and solve everything -- that I hear can be had down here.

I will touch on a variety of subjects this afternoon -- with particular emphasis on the disclosure question you addressed earlier in your meeting -- but I'd like to begin with some general comments.

At the outset, let me note that we in Washington are acutely aware of the financial issues facing many of our state and local governments. Since World War II, the geographics and demographics of this nation have undergone radical change and, in many cases, state and local governments have been adversely affected.

But these phenomena do not lead me to the conclusion -- espoused by so many these days -- that the Federal Government should act to paper over these fundamental changes by massive infusions of cash, either directly, or, even worse, by granting state and local government access to the Federal printing press through bond guarantees or similar programs.

No, the response to these changes must come from your clients: state and local governments. And I am pleased to note, in the midst of all the rhetoric about Federal takeovers of this function or Federal guarantees of that bond, that taxpayers and elected officials are beginning to rise to the challenge.

During my year and half involvement in developing and administering the Federal loan program for New York City, it has been fashionable in some circles to point to New York City as the "wave of the future." If New York is in trouble, some say, then other cities will be engulfed before long.

I disagree. In all major respects but one, New York City is different.

New York City is different because it was first. New York City stands as a warning to other cities, that if they do not practice fiscal restraint, if they lose control over costs, over their relations with their employees, and their relationships with the financial community, they too will undergo the trauma that New York City has undergone.

This lesson has not been lost on the officials and citizens of other cities. In municipalities throughout the nation, reduced growth in expenditures, curtailed construction programs, and other budgetary measures offer tangible evidence that fiscal restraint is at last being practiced as well as preached.

It is also evident on the labor front. For many years, increases in the salaries of public employees exceeded increases in the private sector. This is no longer so. Hard pressed by higher local taxes, citizens have made their views known. In San Francisco and other cities, hitherto known for their generous wage policies, first taxpayers and then the government have insisted on moderate contracts and the people have willingly endured the long strikes necessary to secure such contracts. Other cities, sensing the shifting mood of the nation, have negotiated labor contracts which are, by past standards, remarkably moderate.

Not the least remarkable of these contracts are the ones recently negotiated in New York City. Long the pacesetter in exorbitant wages and benefits, 225,000 union employees in New York City have recently agreed to a wage freeze and a plan to reduce fringe benefits over the next two years. So the lesson of New York has been learned -- by New York as well as by other cities.

The other reason that New York is different from other cities is that it has a unique set of economic and financial attributes. It remains the center of the financial world. Despite the enormous population shifts of the postwar era, it remains twice as large as the second largest city in this country, and has not lost population as rapidly as many other major cities. And, contrary to popular impression, it has not been a magnet for the poor. Ten other cities have a higher percentage of their population on welfare.

But these very strengths are a major source of the City's current problems. These strengths allowed it to tap the financial markets to an unprecedented degree. As a result, its debt load now far exceeds that of any other major city and debt service costs alone exceed the total budgets of all but a handful of our cities.

Moreover, this access to financial markets carried with it even greater access to the short-term end of the market -- Tax Anticipation notes, Bond Anticipation notes, and Revenue Anticipation notes. The fiscal strength which allowed the City to accumulate more than $4 billion of short-term debt was a final catalyst to crisis.

Much has been done to turn the situation around in New York City and I am convinced that the resources exist to complete the job. Whether the political will is there, however, remains to be seen. Today, I do want to concentrate on one area in which New York's progress is highly relevant for other cities: the area of disclosure.

In the past year, there has been a quantum leap in the quantity and quality of the financial information concerning New York City which has been developed and disclosed to the public. While New York is still at least a year away from a truly sound and reliable accounting system, we now know far more about the City's finances than has ever been known -- more, in many respects, than we know about most other cities.

But it is not only in New York that city management has become conscious of the need for better disclosure. Since the well-publicized problems of the past year have destroyed the myth that municipal bonds of major municipalities are risk-free, investors are no longer willing to invest on the basis of the limited information that has accompanied municipal offerings in the past. Other municipalities must sell their obligations to these same disclosure-conscious investors and, in addition, they must sell these obligations with the assistance of underwriters and dealers, and professionals who are themselves increasingly conscious that they may be liable to the investor if disclosure by the issuer is inadequate.

Six weeks ago, I could have told you that Federal legislation requiring increased disclosure of financial information by certain municipalities would pass. I would not have predicted the date, nor the precise terms of the bill, but I could properly have described it as an idea whose time has come: the public wants it; intermediaries have come to believe they need it; and the legislators were ultimately, I believe, prepared to pass it.

Then, on June 24, the Supreme Court rendered its decision in *National League of Cities v. Usery*. That decision, it is fair to say, took most of us by surprise. It raised, and is continuing to raise, fundamental questions about the permissible extent of Federal regulation of traditional state functions. Coming in the wake of certain court decisions limiting underwriters' liability, it is viewed by some as the final blow to Federal disclosure legislation.

In Usery, the Court held invalid 1974 legislation extending the minimum wage to employees of state and local governments. For our purposes, these are the key words of Justice Rehnquist's opinion: "We hold that insofar as the challenged amendments operate to directly displace the state's freedom to structure integral operations in areas of traditional Government functions, they are not within the authority granted the Congress by Article 1, Section 8, Clause 3 (The Commerce Clause)."

But the potentially far-reaching implications of this decision for Federal regulation of state and local activities are evidenced by the unusually strong dissent of Justices Brennan, White and Marshall. Mr. Justice Brennan sees Usery as no less than a reversal of the comprehensive power granted Congress under the Commerce Clause. "I cannot recall another instance in the Court's history," says Justice Brennan, "when the reasoning of so many decisions covering so long a span of time has been discarded rough-shod." He sees this decision as envisioning a "startling restructuring of our Federal System."

Others have been quick to seize upon this decision not only as sounding the death knell for Federal disclosure legislation, but also as vitiating whatever Federal authority currently exists in the municipal securities area. In a recent complaint, the City of New York has sought a declaratory judgment that the Securities and Exchange Commission lacks jurisdiction to enforce certain aspects of the Securities laws with respect to issuance and sale of securities by the City of New York. The City rested its Constitutional case principally upon the Usery decision.

Before we can properly assess the impact of the Usery case and other developments upon the prospects or need for Federal disclosure legislation, we must take a step back. Let me briefly summarize the developments in the field of municipal finance which have given rise to Congressional consideration of Federal disclosure legislation, then we can return to the substance of such legislation and what it may mean for your clients.

The Emergence of Federal Disclosure Legislation

Forty-three years ago, when municipal securities were exempted from the then new Federal Securities Laws, few persons could have foreseen that by 1975, annual offerings in this sector would total $60 billion -- approximately $30 billion in bonds and $30 billion in short-term borrowings. Nor could they have foreseen the cause of this dramatic increase in borrowings -- the increasing level and scope of services offered by state and local governments.

Not so long ago, the basic units of local government could be simply defined. A village was a village, a city was a city, a state was a state, and they taxed and borrowed accordingly. Each rendered a few services -- usually limited to the basics -- education, police, sometimes a fire department.

It is no longer so simple. In the effort to cope with the major shifts of the past forty years, within the context of state laws designed to deal with a simpler system, a bewildering variety of overlapping tax structures have developed. School districts, pollution districts, hospital and housing districts have joined the traditional list of town, county and state units in competing for the taxpayers' money. In addition, there are now usage taxes, sales taxes, and other special taxes. A fiscal map would show that the citizen in a typical municipality is subject to no less than four taxing districts, and usually more, in addition to those taxes he pays for specific goods or services rendered.

The complications that these changes have introduced into our lives as taxpayers pale by comparison with the complications they have created for municipal investors. It is no longer adequate, for example, to gauge the creditworthiness of a municipality by comparing its existing debt with the debt-carrying ability of its citizens. One must also consider the other debts indirectly borne by its taxpayers. In the case of New York, for example, total debt may exceed direct debt of the City by no more than 20 percent. But in Chicago, total debt is roughly three times as high as direct debt. In Los Angeles, it is nearly six times as high.

But by far the greatest problem which faces the investor in analyzing financial information is lack of comparability: the disparity in the quantity of information disclosed, the standards by which the adequacy of the disclosed information is measured, and the comparability of accounting conventions used to report this information. Frequently, different municipalities within the same state use different systems. Adherence to the voluntary guidelines which have developed in the public accounting area is spotty, and different accounting conventions are widely accepted. To choose just one example, it is permissible to record pension liabilities on a "pay-as-you-go" basis, paying pensions out of the current year budget without establishing any reserve for future liabilities -- irrespective of whether or not they are vested.

Moreover, this increasing complexity has developed at a time when the individual is playing an increasingly important role in the municipal market. Lacking the resources and

expertise of the traditional investors -- the banks and fire and casualty companies -- the dearth of reliable and comparable information places an especially heavy burden on the individual investor.

These problems received little attention when the major municipalities were unfailingly paying their debts on time and the myth persisted that general obligations -- secured by the *ad valorem* taxing power -- were risk free. Historical evidence to the contrary was ignored and the occasional need for small municipalities to reschedule their debts was seen as an aberration.

But there is now no investor in the country who is unaware of the problems which have afflicted New York, and few investors who are not aware of problems besetting certain other major cities.

Furthermore, investors now see the current problems of municipalities reflected in the price of the bonds they own. Formerly, the secondary market for securities was relatively immune from price changes other than those induced by general shifts in market conditions. But now bond prices actively reflect the market's assessment of the issuer's current fiscal prospects. To assure these assessments are correct, it is essential that the information relied upon is sound.

Even the strongest advocate of free markets would concede that the market functions best where the best information is available. And, in my view, that demands uniform Federal legislation.

Before turning to the specifics of such legislation, let's take another look at *Usery*. Let me say at the outset that I believe Federal disclosure legislation, even if predicated upon the Commerce Clause, would not be precluded by the *Usery* decision.

In recent years, in case after case, the Commerce Clause has been interpreted to give Congress authority over whatever could remotely or indirectly be linked to interstate commerce. But I do not believe that the Court in *Usery* intended to roll back the Commerce Clause to 1824 as Mr. Justice Brennan suggests. It has simply returned to that narrower concept of interests commerce which prevailed not so many years ago.

On the facts of *Usery*, the Court saw no evidence of interstate commerce other than in the generalized sense that every economic transaction in our inter-related economy may have some indirect bearing on other transactions in the

economy. What the Court saw, in the words of Mr. Justice B. Rehnquist was a simple attempt by the State to "structure integral operations in areas of traditional Government functions," and that activity, the Court held, was not interstate commerce.

Integral is the key word, and Webster says, pertains to "an essential part of the whole." If I may be so bold, I think -- based on the facts and the context -- that Justice Rehnquist should have used the term "internal," and held that the Tenth Amendment precluded the Federal Government from intruding in the relationships between a state and its citizens.

However, in my view, it is quite a different matter when a state or local government -- even in the exercise of a governmental function so traditional as borrowing money -- chooses to deal with citizens of other states. In invoking a key benefit of our Federal system -- free and unfettered access to the financial resources of citizens of other states -- it hardly befits a state to suggest that the Federal authority which guarantees the access in the first place does not permit the Federal Government to insure that such access is on fair and reasonable terms.

I've been away from the law for two years and can no longer cite from memory any of the many judicial articulations of the principle that our Constitution is a living document and must be construed with a keen eye to the practicalities of a situation. In my view, it is virtually axiomatic that a uniform, nationwide system of disclosure will help the municipal market to the uniform benefit of every participant. I am almost equally certain that unless such a system is developed, the municipal market as we know it today won't be with us for very long, and will be replaced by methods of financing involving far higher levels of Federal intrusion than those contemplated by the current proposals for Federal disclosure. It would indeed be a pyrrhic victory for state's rights and the principles of Federalism if a broad construction of Usery were to result in virtual denial of access by state and local governments to private sources of financing.

In short, I don't see Usery as a roadblock in this area, and I hope Congress and the Courts will agree. Assuming I am right, let me turn briefly to the principles which should be followed with respect to such legislation.

The fundamental goal of disclosure legislation must be to assure that the maximum amount of relevant information is readily available, with a minimum amount of Federal intervention and a minimum of cost. Disclosure rules and regulations should enhance the market, not interfere with the market mechanism for municipal issues. Most important, in order to ensure that municipal investors are able to make a concise, comparative analysis of the finances of different issuers, disclosure legislation must standardize the presentation of the information being disclosed.

It is the importance of standardization which requires that a disclosure program be administered at the Federal level. We have examined carefully the voluntary disclosure approach. It has been argued that since investors and underwriters are demanding more information, if the free market were left to its own devices, the information would be provided by those issuers which needed market access. We concluded, however that precisely to assure that the free market mechanism will function smoothly with respect to municipal issues, it is necessary to insist upon mandatory disclosure of financial information by issuers entering the market. It is only by mandatory disclosure that adequate, uniform, usable information can be assured, and that its flow to the investing public can be guaranteed.

In designing a disclosure system, we must keep in mind that the policy trade-offs here differ from those employed in the corporate area. It is not an overstatement to say that, under existing law and procedures, the governing principle in the corporate area is spare no expense to give the investor every last ounce of protection. In the municipal area, where such expenses must be directly paid by taxpayers, I do not think we can or should make a similar choice.

There are many municipalities which do not enter the capital markets frequently or to a heavy degree, and thus present lesser concerns to the investing public or to the proper functioning of our nation's capital markets. There are many municipal issues which have a relatively limited market. So that mandatory disclosure does not result in overkill, we favor the setting of threshold limits below which disclosure would not be required.

Once the issuers which should disclose have been identified, the information required of them should be carefully specified and relatively comprehensive. Some flexibility, of course, is required, but state and local governments, we believe, are entitled to have Congress decide the kind of information it is required to disclose.

I do not believe that municipal issuers should undergo the same disclosure, filing and clearance and registration procedures as corporate securities. Such an approach would impose burdens and costs which outweigh the benefits derived. Instead, we have generally supported legislation strictly designed to insure that information -- reports and distribution statements -- be prepared and made readily available to the public.

Let me stress this fundamental distinction even at the risk of belaboring the point. We do not believe regulatory measures, intimately involving the SEC in the issuance process, as it is in the corporate area, are necessary. What is essential is that informational reports and statements be prepared and made readily available.

I suggested earlier that I believe sound municipal disclosure legislation, by insuring the flow of information essential to healthy markets, will result in a net reduction in borrowing costs, even after costs of compliance are included. What I must add, however, is that such benefits are in large part dependent upon our willingness at the same time to address the liability issue, calmly, rationally and unemotionally.

In looking at developments in the financial markets over the last decade or so, few things are more frightening to me than the growing tendency, fostered by a line of judicial decisions -- hopefully broken by *Hochfelder* -- to bring even the most frivilous securities claims to court, typically clothed in the class action lawsuit.

If I may borrow a phrase from the sports pages, the watchword seems to be: "it's not whether you can win or lose, but *whether* you play the game." Of course, there are winners ... and there are losers. Almost invariably, plaintiffs' counsel gets the grand prize and defendants' counsel the consolation prize. The losers? Issuers, investors, consumers, the economy itself, all of which must pay the cost of an extravaganza and a prize ceremony which makes Montreal look like a small town carnival.

Broadly speaking, I think we need an over-all reappraisal of the private action under the securities laws, but I'll save this point for the securities bar. In the municipal field, as we face the possibility of new and comprehensive legislation, we do have the opportunity to incorporate some fundamental principles.

-- First, I think the legislation itself must set forth with detail and clarity the specific items and methods of disclosure required. As little as possible must be left to subsequent regulatory interpretation.

-- Second, causes of action against an issuer must be strictly based on violations of the above requirements and an issuer's exposure limited to actual, out-of-pocket losses.

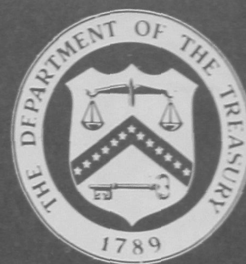
-- Third, the legislation should recognize the principle that potential underwriters' liability will be directly reflected in the issuer's borrowing costs. If an underwriter can be held liable for an issuer's disclosure, any underwriter willing to participate at all will purchase "insurance" against exposure in the only form our securities laws recognize: retaining more lawyers and accountants. It may be superficially satisfying for issuers to know the underwriters seem to be bearing part of the liability burden, but in the end the issuer -- and thus the taxpayer -- will pay a high price for such satisfaction. It may not be popular in some circles, but I personally believe that an underwriter should be relieved by statute of any liability with respect to disclosures by an issuer unless (1) it conceals actual knowledge of false disclosures or material non-disclosures or (2) it provides information to investors other than that provided by the issuer which is false or materially misleading.

* * *

I began my remarks today with the suggestion, perhaps somewhat veiled, that there are no easy answers to the problems -- both legal and financial -- which face the public sector today. No wave of a wand will relieve state and local officials from the intense pressures caused by the imbalance, enhanced by an inflationary environment, between the electorate's desires on the one hand and its willingness to pay for them on the other. No stroke of the pen will resolve -- or even materially simplify -- the complex dilemmas facing the lawyer representinga a public body.

At the same time, certain developments do provide a basis for optimism. There is more and more evidence that the electorate is beginning to understand both the choices which face us and the implications of the various alternatives. Citizens at all levels are beginning to pay more and more attention to the fiscal and financial affairs of their governments. They are beginning to demand more facts and beginning to question the hitherto unquestioned need for more frills, more marginal activities, more deficit spending. It is incumbent upon public officials at all levels of government and those who advise them to recognize this key attitudinal change. This is what we're working toward in Washington and I hope we have your guidance and support.

ie Department of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 964-2041



Contact: L.F. Potts
Extention 2951
August 17, 1976

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES FINAL DETERMINATION
OF SALES AT NOT LESS THAN FAIR VALUE WITH RESPECT TO
INDUSTRIAL VEHICLE TIRES FROM CANADA

The Treasury Department announced today a determination that industrial vehicle tires 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 August 18, 1976.

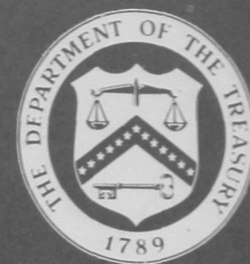
A "Notice of Tentative Negative Determination" was published in the Federal Register of May 27, 1976. The product description, included for clarity in the notice, is that of "press-on, solid, rubber tires, cured or bonded to steel base bands, used on off-the-highway work vehicles, whether or not self-propelled." Tires made of urethane or rubber compounds were not included in the class or kind. Customs made comparisons on approximately 75 percent of the sales by the sole Canadian exporter during the period of investigation (July 1 through December 31, 1975) and found no margins.

Imports of the subject merchandise during calendar year 1975 amounted to approximately $1 million.

o 0 o

WS-1031

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE

Contact: H. J. Hintgen
Extension 2427
August 17, 1976

TWO SERIES OF 7-3/8 PERCENT TREASURY NOTES
DUE 2-15-81 TO BE CONSOLIDATED

The Treasury has announced that the two series of 7-3/8 percent Treasury notes both maturing February 15, 1981, will be consolidated on its records as of September 1.

According to the Treasury, this action is being taken to avoid market confusion and to facilitate transactions in these securities during the remaining period to maturity. Under the consolidation, the 7-3/8 percent Treasury notes, Series E-1981, will be merged with those of Series C-1981. In effect, the Series E-1981 notes will be treated as if they had been an additional issue of the Series C-1981.

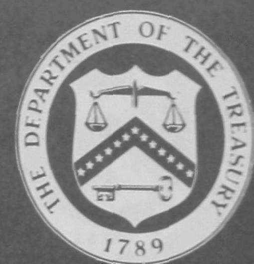
Amendments to the Treasury circulars governing these issues will be published in the Federal Register prior to the effective date of the consolidation to formalize the actions. Under its plan, the Department will merge all accounts of the two series under Series C-1981 and cancel all unissued stock of the Series E-1981. In addition, book entry accounts for these issues will also be consolidated, and after the effective date, transactions involving notes of either series will be handled as Series C-1981 transactions.

As a result of this consolidation, the two series of notes will become fully interchangeable in all trading in the market.

oOo

WS-1032

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE August 18, 1976

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $2,900 million of 52-week Treasury bills to be dated August 24, 1976, and to mature August 23, 1977, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 1 tender of $1,950,000)

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	94.337	5.601%	5.93%
Low -	94.289	5.648%	5.98%
Average -	94.304	5.633%	5.97%

Tenders at the low price were allotted 77%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

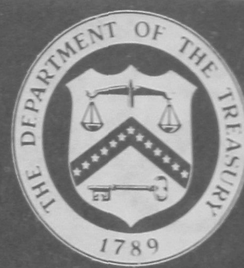
District	Received	Accepted
Boston	$ 29,140,000	$ 23,140,000
New York	3,702,470,000	2,210,970,000
Philadelphia	67,140,000	40,140,000
Cleveland	104,770,000	94,770,000
Richmond	41,135,000	17,135,000
Atlanta	5,025,000	5,025,000
Chicago	460,270,000	186,470,000
St. Louis	39,170,000	28,480,000
Minneapolis	63,730,000	53,730,000
Kansas City	19,145,000	13,145,000
Dallas	29,210,000	10,210,000
San Francisco	315,820,000	216,820,000
TOTAL	$4,877,025,000	$2,900,035,000

The $2,900 million of accepted tenders includes $ 770 million of noncompetitive tenders from the public and $ 673 million of tenders from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities accepted at the average price.

An additional $50 million of the bills will be issued to Federal Reserve Banks as agents of foreign and international monetary authorities for new cash.

WS-1033

ie Department of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE

Contact: H. J. Hintgen
Extension 2427
August 18, 1976

ENGRAVED TREASURY SECURITIES GIVING WAY TO BOOK-ENTRY

The Treasury Department today reported that book-entry securities now represent 81.6 percent, or $320.4 billion, of the marketable public debt. Of the outstanding marketable Treasury issues, 86 percent of the Treasury bills, 78 percent of the Treasury notes, and 66 percent of the Treasury bonds are in book-entry form, rather than in engraved certificates.

In a progress report on the program to accelerate expansion of the book-entry system, as announced by Secretary William E. Simon on March 31, Treasury now proposes that the objectives of a certificateless system for marketable Treasury securities be accomplished in two phases, with the first phase directed at Treasury bills.

It is tentatively planned that beginning in the latter part of 1976, the Treasury, with one exception, will issue 52-week bills only in book-entry form. The exception is for a small number of institutional investors, prevented either by law or by regulation from holding securities in book-entry form, to purchase bills of the $100,000 denomination for a limited period of time.

It is anticipated that similar offerings of 26-week and 13-week bills, in book-entry form only, would follow during the first nine months of 1977. Book-entry bills for these issues would be available through member banks of the Federal Reserve System and the Department of the Treasury.

Tenders for book-entry bills to be issued by Treasury could be submitted either directly or through a Federal Reserve Bank. While the accounts would be established and maintained without charge to the investor, there would be some limitations on the services the Treasury would provide.

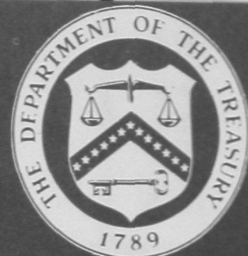
WS-1034

It is recognized that the implementation of this plan will have a far-reaching effect on the marketing of Treasury securities, and will be of interest to the general public and the financial community. Accordingly, the Treasury and Federal Reserve Banks plan to undertake a public information program to further acquaint investors with the operational details of the plan and obtain their reaction. Dates and locations for open hearings on this proposal will be announced in the near future.

The book-entry procedure was initiated in 1968 by the Federal Reserve Banks for the accounts of commercial bank members of the Federal Reserve System. It was later extended to include individuals and institutions. The book-entry system reduces the burden of paperwork created by the mounting volume of public debt transactions; it protects against loss, theft, and counterfeiting; and it substantially reduces the cost of issuing, storing and delivering Treasury securities.

o 0 o

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE August 19, 1976

AMENDED RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

The announcement yesterday of the results of the 52-week Treasury bill auction is corrected to state that the $2,900 million of accepted tenders included $97 million of noncompetitive tenders from the public.

All other particulars in the announcement of August 18 remain the same.

# # #

WS-1035

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

FOR IMMEDIATE RELEASE August 19, 1976

Summary of Lending Activity

August 1 - August 15, 1976

The Federal Financing Bank lending activity for the period August 1 through August 15, 1976 was announced as follows by Roland H. Cook, Secretary:

On August 2, the Federal Financing Bank made an advance to the Chicago, Rock Island and Pacific Railroad Company in the amount of $2,916,725. The maturity is June 21, 1991 and the interest rate is 8.145%. The loan is guaranteed by the Department of Transportation.

The National Railroad Passenger Service (Amtrak) made the following drawings from the FFB:

Date	Note #	Amount	Maturity	Interest Rate
8/2	6	$12,000,000	10/1/76	5.423%
8/10	6	3,000,000	10/1/76	5.436%
8/10	7	3,000,000	9/13/76	5.436%

Amtrak borrowings from the Bank are guaranteed by the Department of Transportation.

The Bank made the following loans to utility companies guaranteed by the Rural Electrification Administration:

Date	Borrower	Amount	Maturity	Interest Rate
8/2	Oglethorpe Electric Membership Corp.	$5,482	12/31/10	8.205%
8/2	Cooperative Power Association	6,150	12/31/10	8.205%
8/4	Central Louisiana Telephone	379	12/31/10	8.170%
8/11	Colorado-Ute Electric Association	6,000	12/31/10	8.138%
8/12	Tri-State Generation & Transmission Assn.	4,958	12/31/10	8.122%

Interest payments on the above REA loans are made on a quarterly basis.

WS-1036

On August 3, the U.S. Railway Association (USRA) borrowed $2,482,353.21 against Note #8. The loan matures April 30, 1979, and bears interest at a rate of 7.219%. USRA borrowings from the FFB are guaranteed by the Department of Transportation.

The Student Loan Marketing Association (SLMA) made the following borrowings:

Date	Amount	Maturity	Interest Rate
8/3	$20,000,000	11/2/76	5.416%
8/10	20,000,000	11/9/76	5.448%

SLMA borrowings are guaranteed by the Department of Health, Education and Welfare.

The General Services Administration made the following loans from the Federal Financing Bank:

Date	Series	Amount	Maturity	Interest Rate
8/4	M	$ 491,334.26	7/31/03	8.319%
8/13	L	1,444,143.98	11/15/04	8.236%

On August 4, the FFB paid $226,486,268.83 to the Secretary of the Treasury for New York City Note #11. The face amount of the note is $225 million and bears interest at a face rate of 7.04%. The note matures May 20, 1977. The effective rate of return to the FFB is 6.165%. The Secretary of the Treasury made the loan to New York City under the New York City Seasonal Financing Act of 1975.

On August 5, the FFB advanced $14 million at 8.150% interest to St. Charles Association, a "new community" in Maryland. This loan is guaranteed by the Department of Housing and Urban Development and matures March 1, 1995.

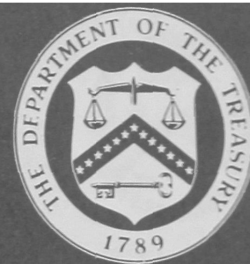
On August 12, the Bank advanced $28,910.89 to the Government of China. The maturity of the loan is December 31, 1982. The interest rate is 7.368%. The borrowing is guaranteed by the Department of Defense under the Foreign Military Sales Act.

On August 13, the Tennessee Valley Authority borrowed $40 million from the Bank. The loan matures November 30, 1976; and bears interest at a rate of 5.405%.

Federal Financing Bank loans outstanding on August 15, 1976 totalled $24.5 billion.

# # #

he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE August 19, 1976

PAUL TAYLOR NAMED
DEPUTY FISCAL ASSISTANT SECRETARY

Secretary of the Treasury William E. Simon today announced the appointment of Paul Taylor, a Treasury career official, as Deputy Fiscal Assistant Secretary of the Treasury. He succeeds Sidney Cox, who recently retired.

Mr. Taylor is a native of Washington, D. C., and attended schools in that city. He received degrees from Strayer College and Southeastern University, majoring in accounting and business administration.

Mr. Taylor's entire work career has been with the Treasury. He has held a number of positions including Assistant Commissioner for Government-wide Accounting in the Bureau of Government Financial Operations. Immediately prior to this present appointment, he served as Assistant Fiscal Assistant Secretary.

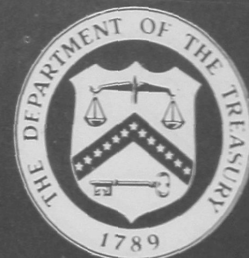
Mr. Taylor has received the Department's Meritorious Service Award.

He is married to the former Carolyn Penn of Washington, D. C. They have a son and four daughters and reside in Lanham, Maryland.

oOo

WS-1037

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE

August 19, 1976

RESULTS OF AUCTION OF 2-YEAR TREASURY NOTES

The Treasury has accepted $2,502 million of $4,292 million of tenders received from the public for the 2-year notes, Series Q-1978, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	6.59%	1/
Highest yield	6.69%	
Average yield	6.67%	

The interest rate on the notes will be 6-5/8%. At the 6-5/8% rate, the above yields result in the following prices.

Low-yield price	100.065
High-yield price	99.880
Average-yield price	99.917

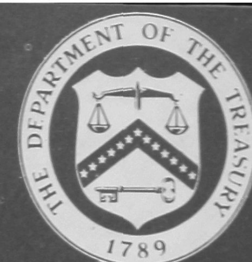
The $2,502 million of accepted tenders includes 20% of the amount of notes bid for at the highest yield and $343 million of noncompetitive tenders accepted at the average yield.

In addition, $414 million of tenders were accepted at the average-yield price from Government Accounts and Federal Reserve Banks for their own account and as agents for foreign and international monetary authorities in exchange for notes maturing August 31, 1976 ($204 million), and from Federal Reserve Banks as agents for foreign and international monetary authorities for new cash ($210 million).

1/ Excepting 2 tenders totaling $510,000

WS-1038

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE August 23, 1976

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,600 million of 13-week Treasury bills and for $3,600 million of 26-week Treasury bills, both series to be issued on August 26, 1976, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing November 26, 1976			26-week bills maturing February 24, 1977		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.692 a/	5.118%	5.26%	97.288	5.364%	5.59%
Low	98.686	5.142%	5.28%	97.275	5.390%	5.62%
Average	98.687	5.138%	5.28%	97.280	5.380%	5.61%

a/ Excepting 2 tenders totaling $710,000

Tenders at the low price for the 13-week bills were allotted 85%.
Tenders at the low price for the 26-week bills were allotted 15%.

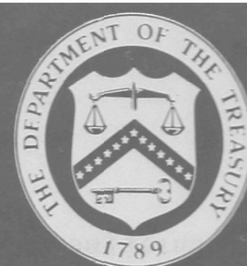
TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 42,020,000	$ 20,420,000	$ 49,705,000	$ 9,605,000
New York	4,453,375,000	2,279,205,000	5,465,015,000	3,332,920,000
Philadelphia	22,055,000	20,840,000	8,600,000	8,175,000
Cleveland	29,885,000	29,495,000	113,995,000	13,995,000
Richmond	27,225,000	22,040,000	40,040,000	11,340,000
Atlanta	39,790,000	37,985,000	23,255,000	23,255,000
Chicago	277,445,000	67,405,000	519,170,000	60,070,000
St. Louis	44,700,000	22,250,000	38,110,000	13,110,000
Minneapolis	41,345,000	7,345,000	48,250,000	24,250,000
Kansas City	32,020,000	27,335,000	37,885,000	25,185,000
Dallas	42,220,000	17,220,000	28,960,000	15,960,000
San Francisco	327,025,000	50,660,000	311,440,000	63,190,000
TOTALS	$5,379,105,000	$2,602,200,000 b/	$6,684,425,000	$3,601,055,000 c/

b/ Includes $ 362,545,000 noncompetitive tenders from the public.
c/ Includes $ 176,310,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

WS-1039

the Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE AT 4:00 P.M. August 24, 1976

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 $6,100 million , or thereabouts, to be issued September 2, 1976, as follows:

91-day bills (to maturity date) in the amount of $2,500 million, or thereabouts, representing an additional amount of bills dated June 3, 1976, and to mature December 2, 1976 (CUSIP No. 912793 C4 6), originally issued in the amount of $3,503 million, the additional and original bills to be freely interchangeable.

182-day bills, for $3,600 million, or thereabouts, to be dated September 2, 1976, and to mature March 3, 1977 (CUSIP No. 912793 E8 5).

The bills will be issued for cash and in exchange for Treasury bills maturing September 2, 1976, outstanding in the amount of $ 6,092 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,506 million. 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, August 30, 1976. 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

WS-1040

(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.

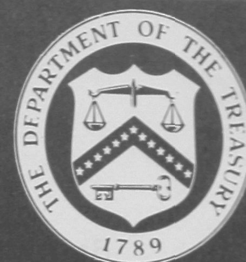
Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, 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 $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 September 2, 1976, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 2, 1976. 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.

oOo

he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041



STATEMENT OF THE HONORABLE DAVID R. MACDONALD
ASSISTANT SECRETARY OF THE TREASURY
(ENFORCEMENT, OPERATIONS AND TARIFF AFFAIRS)
before the
SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
OF THE COMMITTEE ON GOVERNMENT OPERATIONS

August 24, 1976 9:30 A.M.

Mr. Chairman and Members of the Subcommittee:

Thank you for this opportunity to appear before the Subcommittee and testify concerning the Treasury Department's role in combating the drug abuse problem.

While any discussion of Treasury's anti-narcotics activities must include a reference to the conventional law enforcement efforts of some of our bureaus, today I would like to focus on some of our actions related to the financial aspects of the drug traffic.

Of the Treasury bureaus, the U.S. Customs Service has, of course, the major drug enforcement responsibilities. Since, however, Commissioner Acree has just testified concerning Customs' efforts, there is little point in my commenting on them. The statistics on drugs seized at the border attest to the excellent contribution that Customs personnel are making to the Federal drug effort.

The Bureau of Alcohol, Tobacco and Firearms is also playing a part in the anti-drug effort. I understand that the BATF field offices are maintaining close liaison with their DEA counterparts and that their cooperation has been good. Apparently, in recent years, there has been an increasing link between firearms violations and drugs. Traffickers frequently have guns to protect their inventory and money. If they are convicted felons or if the firearms in their possession have been modified, it is likely that a Federal violation has occurred.

WS-1041

Regardless of the success of our agents in apprehending drug traffickers who violate laws within Treasury's area of jurisdiction, I believe that the financial aspects of the drug trade have been, to a large extent, neglected by law enforcement agencies. The traffic in illegal drugs is an international industry that encircles the world. In the United States, it is "big business." At the retail level alone, it generates annual gross receipts estimated to be several billion dollars. Moreover, while the high level trafficker can avoid handling the narcotics, he cannot stay away from the flow of money. Like most criminals, he is in business for profit.

While I am alarmed and concerned by the growth of the market for illegal drugs, I am also surprised that so large an industry can be quite successfully concealed. The activities of legitimate businesses that gross far less are very visible in our communities. For example, while the value of the annual retail sales of illegal drugs has been estimated to be upwards of $10 billion, the 1974 sales of the A&P grocery chain amounted to less than $7 billion. To make those sales, A&P required more than 3,000 stores, 100,000 employees, and $200,000,000 in working capital and recycled billions of dollars through the banking system.

As a result of our perception of the financial aspects of drug trafficking, late last year, we contacted DEA and suggested a joint effort to gather additional information about the money side of the business. Because Mexican heroin has been a dominant factor in the drug market, it was decided to concentrate on Mexican related transactions. DEA agents were requested to make a special effort to gather financial information pertaining to traffic with Mexico; and in addition, Treasury and DEA personnel undertook to gather data on the currency flow along the Mexican border.

Even though this joint effort has not been completed, the data gathered thus far from the Federal Reserve System, commercial banks, and DEA field agents, tend to confirm the general belief that the drug traffic is a multi-billion dollar business in the U.S. In addition, information supplied by DEA indicates that while a large number of relatively small operations are involved at the lower levels of the drug distribution system, the smuggling and wholesale distribution are dominated by large, well organized and financed conspiracies.

Our study disclosed that for 12 months ending October, 1975, the Federal Reserve offices in San Antonio, El Paso, and Los Angeles, had taken in about $629 million more in currency than they had placed into circulation. San Antonio and El Paso, which have relatively small Federal Reserve offices, accounted for $486 million of that total. Further investigation diclosed that most of the surplus of currency received by those two Federal Reserve banks in Texas stemmed from Mexican banks.

The presence of a large surplus of U.S. currency in Mexico is probably due to a combination of factors. One of the more obvious would be expenditures by U.S. tourists visiting Mexico. The Banco de Mexico has reported that foreign tourists spent a total of about $801 million in Mexico in 1975. In our opinion, however, only a small part of that amount should be attributed to expenditures made in U.S. currency. The bulk of expenditures by tourists would very likely have been made by traveller's checks, credit cards, and various other currencies.

Consequently, while we realize that our analysis is by no means conclusive, we believe that it tends to give additional support to the hypothesis that hundreds of millions of dollars in U.S. currency are taken into Mexico to pay for drugs that are being smuggled into the U.S. It is my understanding that information DEA has gathered during the course of some of its investigations also supports this view.

For example, in one case involving a large trafficking organization that dealt primarily in cocaine and marijuana, boxes of currency were carried into Mexico to pay for drugs and were deposited in Mexican banks. Banking records in this country indicate that millions of dollars of this currency were later shipped by a Mexican bank to one of its correspondent banks in the U.S. for credit to the Mexican bank's account at that U.S. bank. It was established that the leader of the organization then used the U.S. bank to move more than $1,500,000 of this money to one of his Swiss bank accounts.

The financial operations of the ring utilized more than 20 bank accounts located in various cities in the U.S., Mexico, the Bahamas, Canada, and Switzerland, as well as in other European and Latin American countries. It has been alleged that the organization, at one time, held more than $250 million in various Swiss and Mexican bank accounts.

I understand that DEA is currently in a position to supply additional case material that would further illustrate the large amount of currency involved not only in traffic with Mexico but also the smuggling of drugs from other countries.

Other indications of the volume of the financial transactions associated with the sale of illegal drugs are contained in reports on drug activity in New York. DEA agents have stated that they have seen bank security films, taken during regular business hours, showing people walking into a bank with shopping bags full of what appeared to be currency. It has also been alleged that, for small commissions, a number of bank employees have exchanged millions of dollars for drug dealers. The traffickers brought in a large quantity of bills of smaller denomination and exchanged them for quantities of 50 and 100 dollar bills.

There have been other allegations that, in one instance in Florida, a trafficker periodically deposited suit cases of currency in a bank account.

The above information indicates to me that we should be directing more of our energies, in both the domestic and international areas, toward the identification and analysis of the financial transactions of drug dealers. Treasury has already taken certain steps in that direction.

As a result of our efforts in certain international meetings, we have been instrumental in having the UN Commission on Narcotic Drugs adopt a U.S. proposed resolution urging governments which have not already done so to make the financing of narcotics trafficking a punishable offense and, in addition, to exchange information that would be helpful in identifying persons committing such offenses. Subsequently, in June, 1976, the resolution was adopted unanimously by the UN Economic and Social Council, and the UN Secretary General is currently notifying UN members of the action taken. The law enforcement agencies of more than 100 foreign countries could be affected by that resolution. Mexico was a co-sponsor.

Also on the international front, Treasury played a vital role in the negotiation of the U.S. - Swiss Mutual Assistance Treaty in Criminal Matters. That treaty which was recently ratified by the Senate, will be effective in January, 1977. It should prove to be a significant step forward in international cooperation in narcotics investigations. It will expedite the exchange of information concerning alleged drug traffickers even while a case is still in the investigatory stage. Under the treaty, Swiss bank information should become much more readily available to U.S. law enforcement authorities.

In addition, since most of the major drug traffickers are engaged in organized criminal activity, as defined in the treaty, the treaty may be used in criminal tax investigations of traffickers when information from Switzerland is required. The IRS will be able to request the Swiss, through our Department of Justice, to provide bank records and other financial information essential to such investigations.

I would also like to briefly discuss the Treasury Department's activities stemming from the so-called Bank Secrecy Act. I believe that with appropriate implementation the Act can become a very effective tool in our fight against drug traffickers on both the domestic and international fronts.

In 1970, when Congress drafted and enacted this legislation as Titles I and II of Public Law 91-508, it was expected that the Act would be useful in combating many different kinds of criminal activity, especially those with international aspects. Nevertheless, it was generally believed that its most important contribution would be the support it would provide the IRS. But, in view of the growth of the drug problem in recent years, we may have to reevaluate the situation. In looking for more effective means to halt the growth in drug trafficking, we are beginning to see the Act in a new light. In my opinion, its potential as a major resource in Federal efforts against large-scale dealers and smugglers has not been generally recognized.

The Treasury regulations that were issued to implement the law require financial institutions to maintain certain basic records of transactions in excess of $100. These records can be valuable in drug related investigations. IRS needs the records in its tax investigation of traffickers,

and DEA needs them to trace the financial transactions that can document large-scale conspiracies similar to the Mexican case that I previously referred to.

The regulations also require domestic banks and other financial institutions to report unusual currency transactions in excess of $10,000 to the IRS. We know that, since the drug traffic is mainly a cash-and-carry business, large volumes of currency are generated. This currency must be recycled through the banking system. If it is recycled directly through domestic banks, it should cause the banks to file the prescribed currency transaction reports.

In view of the reporting requirement, very few traffickers are going to risk taking a large volume of currency into a bank and request that it be changed into larger denominations, cashiers checks, or certificates of deposit unless they have made special, illegal arrangements to evade the reporting requirement. The fact, however, that such arrangements are necessary and may result in additional severe criminal penalties is, in itself, a deterrent to traffickers and makes their illegal acts more difficult to complete successfully.

Another provision in the regulations requires all travellers entering or leaving the United States to file a report with Customs if they are carrying currency and other monetary instruments in excess of $5,000. Customs has already made effective use of this provision in connection with drug related cases. Customs can seize and forfeit the currency involved when there is an apparently willful failure to report it. There is no need to prove any other violation. Customs has had hundreds of thoudands of dollars of drug related money forfeited under this authority.

The requirement that travellers report the movement of currency to Customs will be even more useful in the anti-narcotics effort if the provision in Title IV of S. 3411, President Ford's "Narcotics Sentencing and Seizure Act of 1976" are passed and enacted. The President's bill would clarify the law by specifying that a willful attempt to take more than $5,000 out of the U.S. without reporting it is a violation. In addition, it would give Customs, in "exigent circumstances", the explicit authority to make warrantless searches of travellers leaving the United States where there is probable cause to believe the reporting requirement has been violated. Currently, the law implies

that, if there is reason to believe that a violation is about to occur, a warrant must be obtained before a search for unreported currency can be made. This is impractical. Frequently, the information that would be necessary to apply for a warrant does not come to light until just before a courier is about to leave the country when there is not enough time to obtain the warrant. Since the flow of currency in drug smuggling operations is usually out of the United States, the benefits to drug enforcement from the proposed changes are obvious.

You may be interested in knowing that, some persons who are on record with Customs and DEA as possible drug violators have filed reports indicating that they have transported currency in excess of $5,000 into or out of this country. This information is being made available to DEA as well as to the IRS.

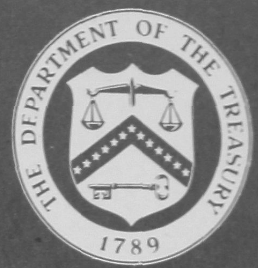
My office has been delegated the responsibility for the overall administration and coordination of the Treasury regulations that govern the reporting and recordkeeping requirements I have been discussing. In that context, I have proposed that a small unit be established in my office to correlate and analyze the domestic currency reports submitted to the IRS by banks and the reports of the international transportation of currency filed with Customs. It is essential that such reports, together with any other related information in Customs and IRS files, be thoroughly analyzed so that we can give DEA and other Federal agencies as much assistance as possible in their enforcement missions.

Looking toward the future, I would hope that all Federal agencies charged with the responsibility for investigating narcotics trafficking and other organized criminal activities would focus on the financial aspects of such activities. In my opinion, success in such investigations will require personnel with substantial financial and accounting backgrounds, as well as organizational structures that will attract them.

It is possible that the Treasury Department with its large number of investigators with financial expertise and its training capabilities may be able to provide DEA with some assistance in this area. We stand ready to do whatever we can to help.

****

he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE GEORGE H. DIXON
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE SENATE COMMITTEE ON FINANCE
WEDNESDAY, AUGUST 25, 1976, 10:00 A.M.

Mr. Chairman, I am pleased to appear here today, as Acting Secretary of the Treasury, to testify in support of S.1625, President Ford's proposal to renew the General Revenue Sharing program. The Administration believes that revenue sharing has worked exceptionally well in responding to the needs which it was designed to meet. We strongly urge that the program be continued in its broad general outlines, as proposed by the President in his message to Congress in April of 1975.

Since General Revenue Sharing was enacted in 1972, it has made available over $26 billion to States and communities throughout the Nation. These funds have done much to strengthen the viability of our Federal system of Government, a system that is predicated upon the shared exercise of powers and responsibilities. Revenue Sharing has contributed to a revitalized Federalism by shifting some resources to those governments closest to the people, where there is often a clearer perception of the needs of citizens. Simply put, some tasks are better performed by State and local governments, instead of being directed from Washington.

Revenue Sharing has placed funds where need exists. It has given a greater measure of assistance to our hard-pressed center cities than it has to their more prosperous suburbs. It has aided low income States relatively more than those with higher income populations.

The program has been free of the costly, and sometimes counter-productive, bureaucratic red tape associated with Federal aid programs. Small and rural communities, which often benefit little from other Federal assistance, can participate in revenue sharing without engaging in expensive and highly competitive "grantsmanship."

WS-1042

Mr. Chairman, we believe that upon evaluation the Committee will find that S.1625, the Administration's renewal proposal, is balanced and well reasoned. It leaves unaltered what has worked and offers improvements in the areas of public participation, reporting and publicity, civil rights, and allocation of funds where experience has shown that change will enhance the program.

S.1625 would extend the funding of General Revenue Sharing for five and three quarter years -- a time frame which assures sufficient certainty to state and local recipients while permitting further Congressional and Presidential review of the program's performance.

The Administration bill does propose one important modification in the formula -- lifting the 145% maximum per capita constraint on local entitlements to 175% in five increments of six percentage points each. This amendment would direct more money into some needy large cities and, coupled with the proposed $150 million annual funding increments, would not cause a net dollar loss in funding to more than a handful of jurisdictions now benefitting from the constraints.

In the civil rights area, our renewal proposal would provide the Office of Revenue Sharing with a more flexible array of sanctions to be used where needed to achieve compliance. This change is necessary to assure that flexibility exists to withhold all or part of a government's entitlement. It can be argued that the existing statutory framework does not permit partial withholding.

Along with the non-discrimination requirement, reporting and publicity standards are other major Federal restrictions attached to use of General Revenue Sharing entitlements. We believe it is important to improve their effectiveness. S.1625 would give more discretion to the Secretary of the Treasury to prescribe reporting and publicity requirements that are varied by type of recipient government. This will improve the availability and quality of information while not imposing unneeded burdens on our States and communities.

The Administration is proposing one additional closely-related requirement: That recipient units assure the Secretary of the Treasury that a public hearing or some appropriate alternative means is provided by which citizens may participate in decisions concerning the use of revenue sharing funds. This provision will help the revenue sharing program better accomplish its goal of bringing government closer to the people.

We think that the changes we are urging in these areas will serve their purpose without putting an unnecessary burden on States and communities of diverse size and with varied political processes. Strict and pervasive requirements are contrary to the goals of the General Revenue Sharing program and would reduce its effectiveness.

As this Committee is fully aware, the House of Representatives has passed HR.13367, which would extend the General Revenue Sharing program for three-and-three-quarter years. The Administration's reaction to the House action was summarized by President Ford on June 10th. He expressed his pleasure that the House had voted to extend the program in a manner which preserved the basic concepts of revenue sharing. The President urged, however, that the Senate examine the House bill in light of the recommendations contained in S.1625.

The basic differences between the Administration's renewal measure and the legislation passed by the House can be summarized as follows:

- The Administration has recommended extension for five-and-three-quarter years, while the House bill would only continue the program for three-and-three-quarter years.

- S.1625, the Administration bill, would raise the maximum per capita constraint gradually to 175%. The House bill would continue the constraint at 145%.

- The Administration measure would continue to provide for a $150 million annual increase in funding while the House bill would freeze funding at $6.65 billion annually.

- The House bill would set new standards of eligibility for jurisdictions to participate in the program while the Administration would continue the present standards.

- HR.13367 would greatly expand Federal requirements governing the manner in which States and localities publicize and report receipt and use of revenue sharing funds. The Administration proposal, while requiring public hearings, takes a much more flexible approach in these areas.

- The House passed bill mandates new statutory standards in the civil rights area. The non-discrimination sanctions of the current law are to be applied to all activities of a government unless it can be shown by "clear and convinc-

ing evidence" that shared funds are not involved "directly or indirectly" in a discriminatory activity. In addition, certain administrative actions have to take place within specific statutory time limits. The Administration bill, while strengthening the Secretary's enforcement powers, would not further expand the existing broad prohibition against discrimination in activities funded through revenue sharing and does not set a statutory timetable.

I would like to discuss the differences in approach I have noted and state the reasons we prefer the Administration's recommendations.

If revenue sharing funds are to be spent wisely, it is important that recipients have assurance that a level of funds will be available to them over time. At the same time, there is a need to periodically re-evaluate the program. The Administration considers the five-and-three-quarter year authorization as an appropriate balancing of these concerns.

The continuation of the $150 million annual increases in the level of funding also makes good sense. It provides a cushion against inflation and, by placing a little more money in the pot, reduces the impact of reductions on recipients whose entitlements are lowered by data changes or the proposed changes in the maximum constraint.

The Administration strongly urges that the Senate eliminate Section 7 of HR.13367, which sets new standards of eligibility for recipient participation in the GRS program. While we recognize the desirability of restricting eligibility to truly active and general purpose governments, we do not believe that the House bill, or any other proposal we have seen to date, does so effectively. Essentially Section 7 would have little impact, yet it would place considerable administrative burden on the Census Bureau and the Treasury Department. Further, no serious inequity results from the distribution of small sums of shared funds to those governments considered by some to be relatively inactive.

We believe that the burden created by the new publicity, reporting, public participation, and auditing requirements in HR.13367, far exceeds their positive impact. The expanded and detailed standards set forth are onerous and would be costly to both recipients and the Federal Government.

A careful look at the requirements of the House bill will show that the changes proposed are detrimental. Revenue sharing would lose much of its attractiveness as a simple and efficient Federal

assistance program. While some discretion is given to the Secretary of the Treasury to waive certain requirements in the House bill, this limited flexibility does not cure many of the difficulties we foresee. Let me quickly touch upon some of the changes that would be mandated by the House:

- Greatly expanded Proposed and Actual Use Reports; a new summary on the proposed official budget of the recipient; a narrative on the adopted budget. These documents must be published and made available to the public.

- Two public hearings -- one on the Proposed Use Report and one relating revenue sharing funds to the entire budget would also be required of many governments.

- An annual audit of all of a recipient's jurisdictions' accounts in accordance with "generally accepted" audit standards.

The non-discrimination provisions of HR.13367 would change the legal requirements under which the revenue sharing program operates. The new burden of proof which has been added to the statute would lead to substantial uncertainty. In addition, Section 9 of the House measure would require Treasury's response within statutory time limits to findings by other Federal agencies, State agencies, and Federal and State courts. This response, as well as other Treasury actions, would have to take place within specific statutory time limits and could lead to a cut-off of revenue sharing funds.

The prohibition against discrimination in the current revenue sharing statute is straight-forward and adequate. To be sure, the Office of Revenue Sharing has been criticized for delays in the processing of civil rights complaints. The problem, however, does not stem from inadequate authority but has largely resulted from lack of resources. We are committed to correct that situation and substantial progress has been made.

In summary, the House-passed bill to extend revenue sharing clearly contemplates much greater costs and restrictions being placed on recipient governments than the program we know today. Similarly, revenue sharing would no longer be a Federal domestic assistance program with a very low cost of administration.

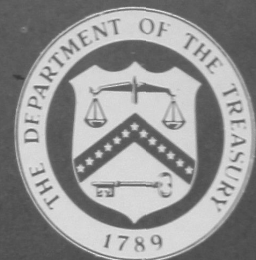
The Administration urges extension of revenue sharing as proposed in S.1625 -- without cumbersome new constraints. The vitality of our Federal system of decentralized government requires

prompt passage of this important renewal legislation.

Mr. Chairman, my colleagues and I will be happy to answer any questions which you may have.

o 0 o

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE
FINANCIAL WOMEN'S ASSOCIATION
OF NEW YORK
AUGUST 12, 1976

Thank you for your warm welcome. I'm particularly happy to be with so many old friends because I'd like to speak with you about the critical economic issues that confront the nation in this election year and the clear choice available to the American people.

It is especially important to consider these issues with members of the financial community whose experience and knowledge readily enable you to recognize the effects of imbalanced or poorly conceived government policies both in our economy and in our financial system. The health of our economic system depends very directly on the pursuit of sensible and well-balanced economic policies by the Federal government. Such policies can bring about an environment that will encourage sustainable economic growth, that would be relatively free of inflation and that is characterized by reasonable rates of interest along with robust credit flows and high levels of confidence.

Unfortunately, these traits have too frequently not been the hallmark of our economic system for the past decade, and, as a consequence, our financial system has developed some signs of stress. More importantly, failure to pursue sensible economic policies by the government in the future will put our entire economic and political system into serious jeopardy.

I know that each of us here shares a common concern about the future and the continued growth of the remarkable and dynamic economic system that has given our people the highest living standards and the greatest prosperity known to man. And it is clear that unless the American people rally behind the principles that underlie this system, our steps will falter. Because far more is involved than the survival of a few companies, or a few jobs, or whether the

price of beef goes up or down over the next few months. What is at stake is the very survival of our economic freedoms and along with them our personal and political freedoms as well.

Abraham Lincoln, referring to the nation's founders, said, "Surely each man has as strong a motive now to preserve our liberties as each had then to establish them."

The same holds true today. Our system, while not perfect, has given Americans the blessings of both liberty and abundance. That system will continue to be true to us so long as we are true to it. This means that every citizen has the duty to ensure that our elected officials pursue sane and solid and responsible policies that will promote our economic stability and assure durable growth.

That is why I believe the election of 1976 is one of the most important in our history -- certainly the most important in my lifetime. Why do I say that? Because, the decision the American people make this year at the polls will determine our nation's course not only for the next four or eight years, but well into the next century. And after all the political speeches have been made, and the editorials written, what that decision will really boil down to is this -- a choice between the freedom for each of us to live our lives as we best see fit, or the surrendering of more of that freedom to an increasingly powerful government in exchange for a false promise of security and permanent prosperity. This theme was best described by Gibbon in his epitaph for ancient Athens. "In the end," he wrote, "more than they wanted freedom, they wanted security. They wanted a comfortable life and they lost it all -- security, comfort and freedom. When the Athenians finally wanted not to give to society but for society to give to them, when the freedom they wished for most was freedom from responsibility, then Athens ceased to be free." That is the issue.

I believe that what this country needs is a political program that is, in Harry Truman's words, a genuine contract with the people, a commitment to more than vague good intentions.

This program does not have to be complicated to be effective. All it requires is an underlying commitment to personal freedom and compassion for those who genuinely need help. This commitment would be linked to five equally explicit goals:

* Prosperity and economic growth through encouragement of the private sector that provides jobs and generates the abundance that pays for government as well.

* Skillful management of economic affairs by creating an environment of sustained, non-inflationary growth which will benefit every man, woman and child in our country.

* Reducing the growth of runaway government spending which more and more Americans recognize as the biggest single domestic problem facing our country today.

* Lowering the level of taxation in America. Taxes are too high for almost everyone. We must reduce the overall level of taxation so that our vital economy and society are spared the stultification and decay we have seen in other societies where the state has consumed an ever larger part of the national product.

* And the fifth and final goal -- government leaders who pay less attention to special interests and more to the general interest by emphasizing national economic priorities in developing legislation.

These guidelines would provide the basis for a prosperous and noninflationary economic environment that would benefit us all for generations to come.

But what have the American people been offered thus far in this political campaign? If, indeed, a platform is a contract with the people, then the platform adopted a few weeks ago here in New York City is a stark statement of the principle of spend-spend, elect-elect, inflation, controls, bigger and bigger government syndrome that has been at the very root of our economic problems during the postwar period -- especially the past 10 years -- and still remains alive and well in Washington, D.C. today.

This platform should really be called "Promises Promises," for just like Santa Claus, and like all the platforms from years past, it has something for everybody. The trouble is, playing Santa with the taxpayer's money dispenses neither good will nor integrity. The only thing it does dispense is pure hypocrisy.

Take a good look at the platform and see what it calls for:

Guaranteed jobs for all at government expense;
National economic planning;
National day care systems;
A mandatory national health system;
A phased-in federal takeover of welfare;
Entirely new programs for transportation;
New public needs employment programs for the cities;
Substantially increased federal payments to education;
Countercyclical aid to state and local governments;
More federal subsidies for public housing;
Higher commodity prices for farmers, yet lower food prices for consumers. And then to top it all off, we're promised a balanced budget.

Isn't it wonderful? There's more money for literally everything that lives and breathes. The list goes on and on. But what it all adds up to is bigger and bigger government, higher and higher inflation, and eventually more unemployment and greater economic instability.

And in all of this, mind you, not a word about who would pay for all these programs or even how much they would cost. Well, they do cost, and they're going to cost a lot, because there is no such thing as a "free" lunch or "free" education, or "free" health care. In fact, there is no free anything.

What is the price of these instant cure-alls? The programs of this platform could easily exceed an additional $200 billion -- that's $1,000 for every man, woman and child in America or over one-half of what our federal budget is today. The average American taxpayer would have to work for half the year just to support government, and only then could he start to support himself and his family.

But the platform makes the appealing claim that all these programs are possible without substantial new inflation, given a federal policy of full employment, because for the millions of newly employed people there will be much higher tax revenues and the deficit will supposedly be decreased. But how are these people to become employed? Why, by spending more money of course. This means that the deficit will not disappear by such steps but will only grow.

So where would the additional needed revenue come from to balance the budget? It could be raised by borrowing or taxing from the private sector, but that would only lead to a loss of jobs in the private sector. The other alternative would be to inflate the money supply which would merely set

set us off on another boom-bust cycle. The supposed cure, then, turns out to be illusory, and what results is new and higher inflation which in turn would only lead to a new and higher level of unemployment.

Furthermore, a return to high levels of inflation will only serve to put great pressure on our financial system which has already experienced a rather pronounced shift towards less liquidity and higher debt over the past decade. The extensive rebuilding of corporate balance sheets over the past year has improved the mix of assets, liabilities, and equity but only back to their 1972 relative composition. The system is still fairly rigid and less able to absorb the consequences of poor government policies.

Another wave of inflation with rising interest rates and falling equity prices will only force more corporate treasurers into short-term financing for their long-term needs, will only lower interest coverage ratios further, and ultimately raise the risk of widespread insolvencies or bankruptcies. Our financial institutions will find themselves faced with growing needs for credit just at the time that serious disintermediation sets in. In other words, a repetition of the credit cycles that have unfortunately characterized our economy and our financial system since the mid-1960s would occur, but starting this time from an even more highly leveraged overall financial base.

Indeed, repeated waves of credit and economic changes -- generated by excessive government spending, a proliferation of costly regulations, large-sized deficits, and too rapid a growth of money -- would easily rekindle serious price inflation as well as regenerate very high inflationary expectations. Eventually, this would result in a process of excessive debt growth; would make businesses vulnerable to the inevitable recessions caused by inflation; would subject many financial institutions to pronounced bouts of disintermediation and serious problems of solvency.

In addition to eroding the financial base of our economic system by an excessive growth of spending and the need to continuously finance large-sized deficits, there are also clear calls in the Democratic Platform for more credit on favorable terms to "needy" groups as well as a closer "coordination" of Federal Reserve credit policies with the objectives of the Congress and the President. No matter how viewed or how rationalized, these monetary proposals are nothing more than a veiled call for more money creation and for greater government influence in the credit allocation process. Inflationary cycles which make our institutions more dependent on government, more specially subsidized

credit for this group or that group, and greater pressure on the Federal Reserve to -- quote -- "be responsive to the needs of the public" collectively spell out a greater concentration of economic power in the hands of the Federal government.

To those who would be so quick in making such a change and who are fond of quoting from the economist John Maynard Keynes, I suggest to them that they not forget a very critical passage in the book by Lord Keynes on the Versailles peace conference:

> "Lenin is said to have declared that the very best way to destroy the Capitalist System was to debase the currency. . . Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debase the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one in a million is able to diagnose."

If we remove the last vestige of independence from the Federal Reserve, we will only be encouraging the politicians to print more money. The moment the monetary mechanism falls into the hands of the politicians is the moment when you begin to destroy the economy and the society. Make no mistake about this, for it is then that the politicians can pay for everything but have to account to no one. Just think of where we would be today had we acquiesced to the persistent calls last year by the politicians and the "political-economists" for double-digit growth in the money supply. We would now be facing a much more serious inflation problem and on our way to aborting our current economic expansion.

If the independence of the Federal Reserve is eroded, God help us. The Congress which established the Federal Reserve in 1913 recognized the vital necessity of having a monetary authority that was insulated from everyday political pressures. And yet today we have a clear call to turn the Federal Reserve into what is really a junior or subordinate partner of the political process.

Coupled with this move to take over more policy making authority of the Federal Reserve are specific proposals to allocate credit to special groups -- by guarantees, by low interest loans, by direct subsidies. In one way or another, more political criteria will be injected into the credit making process. But if our credit mechanism becomes dominated by the Federal government, how will it decide who is to get credit? How will it determine which areas, which industries, which households, and which businesses are worthy of credit?

How will it decide whether a swimming pool in the inner city is worth more to our society than several new homes in the suburbs or a small factory in the solar energy field located in the southwest? How will it choose between an area of stagnant growth (with high unemployment) or an area of robust development (that needs capital)? Obviously, control over credit will greatly influence what we produce as a nation, which areas will grow, how production is to be based, where people can get jobs, who is to benefit and who will have access to this output.

The issues involved here are by no means narrowly economic. They concern fundamental principles of equity and of social stability. The trouble with growing government spending, regulations and credit allocation schemes is that however good the intentions which underlie the growth, those intentions are not achieved; that instead, the growth in government domination makes low-income people worse off, undermines social cohesion and threatens the very foundation of a free society.

The outstanding fact is, that in every country in which the percentage of government domination has increased there has been a tendency to move toward instability, toward minority government and toward a threat to a free society. Have we forgotten the inextricable relationship between our economic freedom and our social and political freedoms?

Our desire for progress, in the form of improved living standards and employment opportunities, will surely be frustrated unless we better control the insidious inflation which has destroyed economic stability by triggering a costly series of booms and recessions. The tragic policy errors of the past and our hopes for the future must force us to recognize a basic reality: inflation is the greatest threat to the sustained progress of our economy and the ultimate survival of all of our basic institutions.

There is a clear record from the past: when inflation distorts the economic system and destroys the incentives for real improvement the people will no longer support the system and society disintegrates. I am convinced that our uniquely creative and productive society will also collapse if we permit inflation to dominate our economic affairs. There is no tradeoff between the goals of price stability and low unemployment as some critics have erroneously claimed. If we are to increase the output of goods and services and reduce unemployment, we must first make further progress in reducing inflation.

The intensity of my feelings about inflation has resulted in some critics labeling me as obsessed. However, I am not so much obsessed as I am downright antagonistic toward those who consistently vote for bigger deficits. We must always remember that it is inflation that causes the recessions that so cruelly waste our human and material resources and the tragic unemployment that leaves serious economic and psychological scars long after economic recovery occurs. It is inflation which destroys the purchasing power of our people as they strive -- too often in a losing struggle -- to provide the necessities of food, housing, clothing, transportation, and medical attention. Inflation is not now, nor has it ever been, the grease that enables the economic machine to progress. Instead, it is the monkey wrench which disrupts the efficient functioning of the system. It is the most vicious hoax ever perpetrated for the expedient purposes of a few at the cost of many. And there should be no uncertainty about its devastating impact, particularly for low-income families, the elderly dependent upon accumulated financial resources and the majority of working people who do not have the political or economic clout to beat the system by keeping their incomes rising even more rapidly than inflation. When inflation takes over an economy it is the poorest people who suffer most and turn to the government. It's an insidious process, because they become willing clients of the state and the very policies which created their misery.

The Democratic party platform then, far from being a guide to a new prosperity built upon sustained non-inflationary growth, is in reality a blueprint for economic disaster. By advocating such a massive and undesirable federal takeover of our national economy without even stipulating the means, the cost, or the method of payment, this platform not only insults the good faith and intelligence of the American taxpayer, but ignores the fundamental lesson of the past decade: it was these same excessive fiscal and monetary policies that caused the worst inflation in our peacetime history which in turn led to the worst recession in more than a generation. Our people have paid a terrible price for that ignorance.

In President Ford, we have a man who knows that real leadership is not always saying yes, because he has had the courage to say no. Thanks to his prudent policies, we now have the best chance in a long time to enter an era of durable economic stability.

Our critics term the President's policies "Government by veto." But it is precisely because the President has vetoed more than 50 bills passed by the reckless free-spending Congress that the taxpayers have saved more than $14 billion.

Restraint on spending brought about by the President is one of the reasons inflation has been cut in half, inflationary expectations have been lessened, and almost 88 million people are now working, more than at any other time in the nation's history. In essence, we've come a long way from the depths of the recession in 1975 and we're now well advanced into a period of economic expansion.

The essential point to remember, however, is that the President acted as he did because he had to. We must never forget that the other party has controlled both houses of Congress in all but four years since 1930. During this campaign the American people are being told we need to try new ideas, which translates into spending a lot more money to create many new programs, including public employment, which will allow us to balance the budget. This is a total contradiction; more of the same old quack nostrums which have in reality produced budget deficits in 38 out of the past 46 years. Every time you see the sun rise here in New York City, be reminded that your Federal Government, spurred by an undisciplined Congress, has spent more than a billion dollars of your hard-earned money. And if you think that's incredible, let me give you some more unbelievable facts about government spending.

Since 1962, our budget has exploded from $100 billion to a figure that will certainly top $400 billion in 1977. The government is now growing much faster than our ability or willingness to pay for it.

The U.S. Treasury in just the past 10 years has borrowed half a trillion dollars in the private capital markets. That's money that was swallowed up by the Washington bureaucracy that could and should have been invested in the dynamic private sector.

Added to that is the suffocating weight of excess government regulations that are threatening to overwhelm many small businesses. Government now controls over 10% of everything we produce in the economy and indirectly controls almost all of the rest. That translates into a cost to consumers of $125 billion a year. One-hundred and thirty million man-hours are spent just filling out the forms.

It doesn't take a Ph.D. in economics to realize that the federal government has become the nation's biggest single employer, its biggest consumer, and its biggest borrower, and also the biggest source of inflation in the United States economy.

I am frankly astonished that whenever our critics are confronted with such irrefutable evidence proving we have too much government, they nevertheless plow on trying to make the case that there is not enough. The casualties of this misguided logic are jobs.

Free lives, individual lives, productive lives are built on capital investment, not on the red ink and the printing press of the government. If we are going to create the kind of jobs that will keep people permanently employed, that will meet the needs of a growing labor force and that will reduce our inflation by expanding our output of goods and services, then we must equip our workers with new and efficient plant, machinery, and tools. These capital needs of the future are staggering, about $4-1/2 trillion in the next decade -- or about three times as much as we spent in the last decade.

Savings are the source of this needed capital. But savings are currently being drained by excessive government deficits. Resources absorbed by government for its spending today cannot simultaneously be invested in expanded plant and machinery to employ more people tomorrow. We cannot have both bigger government and a healthy expanding private sector. Government doesn't create wealth -- people do. We cannot continue to transfer each year an increasing percentage of our national wealth from the most productive to the least productive sector of our economy without endangering the economic future of our children.

If we're really sincere about providing more productive and lasting jobs for our economy we will only succeed by strengthening our free enterprise system, and that, I might add, constitutes the centerpiece of President Ford's program. This means controlling government spending, getting rid of excessive and counterproductive regulations, reducing personal and corporate taxes, and striking a new balance that favors less consumption and government spending and more savings and investment. The only way to wage a real war on poverty is to create jobs in the private sector, not jobs for bureaucrats.

In the past, we have looked upon our dynamic free enterprise system as the Golden Goose that produced all our blessings and encouraged the self-initiative that has made our country the envy of the world. But today Congress is spending faster than the goose can lay its eggs. And should these policies continue, they will not only steal all the eggs, but kill the goose itself.

What a tragedy that would be. Just look at what we would be sacrificing:

* The private sector produces the food we eat, the goods we use, the clothes we wear, the homes we live in.

* It is the source of five out of every six jobs in America, and it provides, directly and indirectly, almost all the resources for the rest of the jobs in our all-too-rapidly expanding public sector.

* It is the foundation for defense security for ourselves and most of the Free World.

* It is the productive base that pays for government spending to aid the elderly, the jobless, the poor, the dependent and the disabled. Indeed, far from being the inhuman monster caricature painted by political demagogues, the American private sector is in reality the mightiest engine for social progress and individual improvement ever created.

This is the crucial theme that must be communicated broadly and deeply into the national consciousness: the American production and distribution system is the very mainspring of our nation's strength -- the source of present abundance and the foundation of our hopes for a better future.

Yet we could lose it unless we act. Let's face it. Under the politics of spend-spend, elect-elect we will get a massive increase in federal expenditures which will inevitably be followed by a new round of double-digit inflation, a wrenching recession and serious strains on our financial system. And that means more cries for government help and more calls for government intervention. So what we're talking about is the survival of our free enterprise system and, more importantly, whether the protection of our personal liberties can survive in its absence.

Ladies and gentlemen, the question is, are we going to promote the individual or the government? We cannot do both. That is the issue, and our freedom and your children's is at stake. Do we want more freedom of choice and more freedom of individual action? Or do we want to see these freedoms and all the other individual freedoms we hold so dear gradually erode under more and more government encroachments on our lives. That is the true, crucial decision behind the rhetoric and personalities of this election year. And the choice we make will affect not only our own futures, and our children's, but the future of our country itself as America embarks on its third century as the hope and inspiration of free people everywhere.

Gerry Ford has taken his stand. He's taken a stand to protect the dignity and freedom of millions of individuals like yourselves by leading the battle to slow the growth in government. Control over government spending will allow you to keep more of your own money. President Ford has made and continues to make those tough decisions despite persistent criticisms, because he knows that it's the hard-working taxpayers who keep this country going. And those people need to be protected, not punished. That's the honest way to run an Administration -- nothing flashy, no gimmicks, just facing up to the job at hand each day and doing it. And by succeeding, he's also demonstrated that he understands what the real meaning of compassion is all about.

Two hundred years ago Thomas Jefferson said, "To preserve our independence we must not let our rulers load us with perpetual debt. We must make our choice between economy and liberty, or profusion and servitude." That was the choice 200 years ago and it remains the same today. But time is now running out. 1976 may be the last opportunity we will have to stem the tide of big government and thinly disguised state socialism as practiced -- if not preached -- by many in Congress and elsewhere today.

If we love our freedom, then we must be prepared to defend it. Between now and election day I urge each one of you to decide how you can most effectively contribute to the preservation of a society that in 200 years has come to symbolize man's capacity to attain freedom, prosperity and dignity. This is an election in which the individual efforts of individual citizens will make the difference.

Thank you.

o0o

ADMINISTRATION POSITIONS

ON

H.R. 10612
TAX REFORM ACT OF 1976

Return to: Room 4040
Analysis Staff-Tax Division

(PREPARED FOR USE BY THE HOUSE AND SENATE CONFEREES IN CONJUNCTION WITH THE CONFERENCE COMPARISON)

TREASURY DEPARTMENT
AUGUST 25, 1976

TABLE OF CONTENTS

Title		Page
I & II	LAL and Other Tax Shelter Provisions	1
III	Minimum and Maximum Tax Changes	12
IV	Individual Tax Reductions	14
V	Tax Simplification	15
VI	Business Related Individual Provisions	16
VII	Accumulation Trusts	20
VIII	Capital Formation	21
IX	Small Business Provisions	25
X	Changes in the Treatment of Foreign Income . . .	26
XI	Amendments Affecting DISC	33
XII	Administrative Provisions	34
XIII	Miscellaneous Provisions	44
XIV	Capital Gains and Losses	53
XV	Pension and Insurance Taxation	54
XVI	Real Estate Investment Trusts	57
XVII	Railroad and Airline Provisions	59
XVIII	Tax Credit for Home Garden Tools	60
XIX	Repeal and Revision of Obsolete, Rarely Used, Etc., Provisions of Internal Revenue Code of 1954	61
XX	Energy-related Provisions	62
XXI	Tax Exempt Organizations	68
XXII	Estate and Gift Tax Provisions	71
XXIII	Other Amendments	77
XXIV	United States International Trade Commission . .	79
XXV	Additional Miscellaneous Provisions	81
XXVI	Other Miscellaneous Amendments	83
XXVII	Additional Senate Floor Amendments	85

Administration Positions

on H.R. 10612

Titles I and II - LAL and Other Tax Shelter Provisions

Real Estate Provisions	Administration Position
1. Limitation on Deductions (LAL)	1. Support House bill. No objection to alternative approaches which seek to match expenses with the income related thereto.

Discussion: In 1973 the Administration introduced LAL and the minimum taxable income proposals to deal with high income taxpayers who pay little or no income tax.

Real Estate Provisions	Administration Position
2. Limitation on deductible losses of limited partners	2. Oppose the substantive provision and the effective date.

Discussion: The "at risk" limitation is not appropriate for real estate since real estate has value against which the bona fides of the financing can be established.

Real Estate Provisions	Administration Position
3. Minimum Tax	3. Oppose, provided that LAL or other effective curbs on real estate tax shelters are enacted. In addition, if LAL or other effective curbs on real estate shelters are enacted, delete existing preference. Support Senate bill with respec to treatment of excess investment interest EXCEPT for low and moderate income housing provisions (Sparkman amendment) Prefer Finance Committee provisions.

Administration Position

4. Recapture of depreciation on real property

4. Support House bill. Oppose Sparkman amendment for low and moderate income housing.

Discussion: Support provision in the House bill providing for a phase-out of recapture between 100 months and 200 months in the case of government subsidized low income housing.

5. 5-year amortization for low-income housing

5. Support House bill.

'arming Provisions	Administration Position
;. Limitation on Deductions (LAL)	6. Support House bill with certain modifications: - LAL should not apply to timber generally, - LAL should apply to pre-productive expenses of live-stock and certain one year crops. No objection to Senate farming provisions (items 7, 8) as an alternative solution.

Discussion: In 1973 the Administration introduced LAL and the minimum taxable income proposals to deal with high income taxpayers who pay little or no income tax.

7. Limitation on deductions to amount at risk	7. No objection to Senate provision as an alternative solution if combined with limitations on farming syndicates.

Discussion: The "at risk" limitation for farming would be an effective deterrent to sham transactions which generally present difficult enforcement problems for the Internal Revenue Service.

Administration Position

8. Limitations on deductions for farming syndicates

8. No objection to Senate provisions as an alternative approach.

Discussion: The Senate limitations deal directly with certain of the underlying deductions which result in tax abuse.

9. Accrual accounting for farm corporations

9. Support House bill, including the exception for family farm corporations.

10. Termination of additions to Excess Deductions Accounts under section 1251 (EDA)

10. Support, provided that limitations on farm tax shelters are enacted.

No objection to "D" reorganization provision.

Discussion: The "D" reorganization provision provides for the carryover of EDA to the surviving corporations on an aggregate basis and can be administratively complex.

Oil and Gas Provisions	Administration Position
11. Limitations on Deductions (LAL)	11. Support House bill effective at such time as the prices of oil and gas in interstate markets are deregulated. No objection to alternative approaches which seek to more properly match income with expenses related thereto, effective upon complete deregulation.
12. Limitation on deductions to amount at risk	12. Oppose both the House and the Senate provisions.
13. Minimum tax	13. Oppose both the House and the Senate provisions, provided that LAL or other effective curbs on oil and gas shelters - effective upon deregulation - are enacted.
14. Recapture of intangible drilling costs	14. Support House bill effective at such time as the prices of oil and gas in interstate markets are deregulated.

Movie Provisions	Administration Position
15. Limitation on Deductions (LAL)	15.
a) Film purchase shelter	a) Support House bill. No objection to alternative approaches which seek to more properly match expenses with income related thereto.
b) Service company shelter	b) Support House bill. No objection to Senate provisions (items 16, 17) as alternative solutions.

Discussion: In 1973 the Administration introduced LAL and the minimum taxable income proposals to deal with high income taxpayers who pay little or no income tax.

Movie Provisions	Administration Position
16. At risk rule	16. a-b) No objection to Senate provisions as an alternative solution.
a) Film purchase shelter	
b) Service company shelter	Oppose the special exception for certain production companies.

Discussion: The "at risk" limitation for movies would be an effective deterrent to sham transactions which generally present difficult enforcement problems for the Internal Revenue Service.

	Administration Position
17. Capitalization--Service company shelter	17. No objection to Senate provisions as an alternative solution.

Discussion: The capitalization provision deals directly with the deductions which result in tax abuse.

Equipment Leasing Provisions

18. Limitation on Deductions (LAL)	18. Support House bill with certain modifications: - ADR variance in useful lives should not be treated as an accelerated deduction; - LAL should not apply to operating - as opposed to net - leases. No objection to alternative approaches which seek to more properly match expenses with income related thereto.
19. Limitation on deductions to amount at risk	19. Oppose Senate provision.

Discussion: The "at risk" limitation is not appropriate for equipment leasing since equipment has value against which the *bona fides* of the financing can be established.

20. Minimum tax	20. Oppose both the House and the Senate provisions, provided LAL or other effective curbs on equipment leasing shelters are enacted. In addition, if LAL or other effective curbs on equipment leasing shelters are enacted, delete existing preference.

Sports Franchise Provisions	Administration Position
21. Limitation on deductions (LAL)	21. Oppose House bill.

Discussion: Application of LAL to sports franchises is an unwarranted extension of the Administration's 1973 proposal. Tax abuse in sports franchises can be handled administratively by the Internal Revenue Service.

22. Allocation of Basis to Player Contracts	22. Prefer Senate bill.

Discussion: The Adminstration opposes any special rules applicable only to sports franchises as unnecessary.

23. Recapture of Depreciation on Player Contracts	23. Prefer Senate bill.

	Administration Position
24. Minimum tax	24. Oppose House bill.

Partnership Provisions

25. Partnership syndication and organization fees	25. Support Senate provision.

Discussion: Section 248 of the Internal Revenue Code presently allows a corporation to amortize its organizational expenses over a period of not less than 60 months.

26. Retroactive allocations of partnership income or loss	26. Support Senate provision.

	Administration Position
27. Partnership special allocations	27. Support Senate provision.
28. Deductible losses of limited partners - at risk	28. Oppose the substantive provision and the effective date.

Discussion: The provision restricts only the basis of limited partners of a partnership. It does not purport to generally repeal the long-established rule based on Crane v. United States, 331 U.S. 1 (1947) that nonrecourse financing is included in the cost, and thus the basis of property. Thus, other business arrangements may be used to circumvent the limitation.

The provision also leaves unanswered the issue of proper allocation to the various partners of the basis attributable to nonrecourse liabilities. The limited partners' share of the basis attributable to such liabilities may be suspended until principal is repaid. The subsequent increases in basis resulting from such a suspense account could raise serious administrative problems in enforcing the limitation.

Interest	Administration Position
29. Treatment of prepaid interest	29. Support Senate provision, although do not object to House provision.
30. Limitation on deduction of nonbusiness interest	30. Oppose House bill. Support Senate approach. (See Administration Position on treatment of interest in the minimum tax.)

Discussion: The $12,000 limitation on nonbusiness interest is an arbitrary limit on the interest deduction which would deter individuals from purchasing assets with borrowed funds. Moreover, the limitation can have the effect of permanently disallowing deductions for home mortgage interest.

Title III - Minimum and Maximum Tax Changes

Administration Position

31. Minimum tax for individuals
    a) Tax rate
    b) Exemption
    c) Deduction for regular taxes
    d) Preferences included in minimum tax

31. a-c) Prefer Senate provision.

d) 1. Prefer Senate provision with 70% AGI.

2,3 and 4 (House bill) Oppose both the House and the Senate provisions and, in addition, delete existing preferences, provided LAL or other effective curbs on tax shelters are enacted.

4. (Senate amendment) Suppor Senate approach. Oppose House Limitation on Nonbusiness Interest.

5. Oppose House and Senate provisions.

Discussion: The Senate provision providing for a deduction for regular taxes paid tends to make the minimum tax more in nature of an alternative, rather than an add-on, tax. The Administration strongly supports an alternative minimum tax.

32. Minimum tax on corporations
    a) Tax rate
    b) Exemption
    c) Deduction for regular taxes
    d) Carryover of regular taxes
    e) Preferences included in minimum tax
    f) Exemption for timber

32. a-f) Oppose Senate provisions.

The amendments to the minimum tax for corporations were adopted on the Senate floor. No hearings were held on these changes which can impact adversely on many trades or businesses.

	Administration Position
33. Maximum tax	33. No objection to conforming maximum tax with minimum tax provisions.

Title IV - Individual Tax Reductions

	Administration Position
34. General tax credit	34. -----

Discussion: The Administration is disappointed by the form, duration and extent of the tax cut extension provisions in the House and Senate bills. It continues to support greater tax reductions coupled with a dollar-for-dollar reduction in federal expenditures.

35. Standard deduction	35. -----
36. Earned income credit	36. -----
37. Disregard of earned income credit	37. No objection to House and Senate provisions.

Title V - Tax Simplification

	Administration Position
38. Alimony payments	38. Support provision with Senate effective date
39. Child care expenses	39. Oppose the refundable feature of the Senate provision.

Discussion: The credit for child care expenses may be considered a cost of earning income. The credit thereby performs a legitimate tax function in determining the proper amount of tax due. However, refundability has nothing to do with the determination of tax liability; it is simply an addition to the tax system which more properly serves a welfare function.

40. Sick pay and certain military disability pensions	40. Support House provision. No objection to Senate provision for Federal employees injured as the result of acts of terrorism.

Discussion: The Senate floor amendment retaining sick pay provisions of current law for taxpayers with adjusted gross incomes of $15,000 or less is contrary to the simplification purpose of Title V. Also, more fundamentally, no justification exists for treating sick pay any differently than other wages.

	Administration Position
41. Moving expenses	41. Support Senate provision.
42. Tax study by Joint Committee	42. No objection to Senate provision.
43. Treasury report on tax simplification and integration of corporate and individual income taxes	43. No objection to Senate provision.

Discussion: Treasury is presently undertaking a study on basic tax reform.

Title VI - Business Related Individual Provisions

44. Deductions for expenses attributable to business use of homes	44. Support Senate provision. Oppose Senate floor amendment of Senator Bartlett expanding definition of business use of home.

Administration Position

45. Deduction for expenses attributable to rental of vacation homes

45. No objection to House and Senate provisions.

Discussion: It is appropriate to replace the present facts and circumstances test of current law with an objective mechanical rule. The Administration prefers the two week rule to the alternative tests of the House and Senate provisions.

46. Deductions for attending foreign conventions

46. Support Senate provision (as reported by the Finance Committee). Oppose Senate floor amendment retaining present law.

Discussion: The Senate provision would curb most of the abuse of the deduction allowed for attending foreign conventions. The House provision contains mechanical rules which would be difficult to administer. It also fails to deal with conventions on cruise ships.

The Administration believes that the deduction for attending foreign conventions has been abused and that current law is inadequate to deal with the problem. The Administration, therefore, opposes the Senate floor amendment which would make no change in present law.

	Administration Position
47. Qualified stock options	47. Support House provision.
48. Nonbusiness guaranties	48. Support House provision.

Discussion: Current law creates an arbitrary distinction in the treatment of guaranteed payments depending on whether the guarantor is an individual and on whether the obligation is that of a corporation.

	Administration Position
49. Deduction for legislators travel expenses away from home	49. No objection to House provision with Senate modification that the Secretary of Labor (rather than IRS) establish the daily amount of allowable living expenses.

Title VII - Accumulation Trusts

	Administration Position
50. Revision of Method of Taxing Accumulation Distributions on Trusts	50. Support Senate provisions.

Discussion: The Senate provisions incorporate perfecting amendments to the House bill and thus are preferable.

Title VIII - Capital Formation

	Administration Position
51. Extension of $100,000 limitation on used property	51. Support Senate provision.
52. Extension of 10-percent investment credit	52. Support Senate provision.
53. First-in-first-out treatment of investment credit amounts	53. Support Senate provision provided that present treatment retained for pre-1976 carryovers.

Discussion: The FIFO rule improves the incentive to further capital investment. However, present law should be retained for investment credit carryovers from pre-1976 years to prevent windfalls.

54. Extension of expiring investment tax credits	54. Oppose Senate provision.

Discussion: The provision provides a windfall for a limited number of taxpayers who have unused, expiring credits from 1966.

Administration Position

55. ESOP investment credit provision — 55. Oppose Senate provision.

Discussion: The Administration supports tax incentives for broadened stock ownership which are available to all taxpayers. ESOPs are restricted to corporate employees and do not afford diversification and investment choice. In addition, as among corporate employees, ESOPs tied to the investment tax credit favor employees in capital intensive industries.

56. Retroactive regulations on Employee Stock Ownership Plans (ESOPs) — 56. Oppose Senate provision.

Discussion: To the extent that Congress endorses different rules for ESOPs, it should set forth specific criteria in legislation developed after public hearings and comment.

57. Study of stock ownership expansion — 57. Support Senate provision.

Administration Position

58. Investment credit in the case of movie and television films

58. Support Senate provision except for "elect out".

Discussion: The provision provides a compromise investment credit for pre-'75 years in settlement of pending litigation. The "elect out" of the Senate provision frustrates the intent of the compromise to dispose of this litigation.

59. Investment credit in the case of certain ships

59. Oppose Senate provision (including its retroactive effective date).

Discussion: The provision selectively overturns the general tax concept of "basis" underlying the allowance of depreciation and investment credit.

60. Small fishing vessel construction reserves

60. Oppose Senate provision.

	Administration Position
61. Net operating loss carryover election	61. Support Senate provision provided that the election be made on an annual basis for the losses occurring in such year.
62. Limitation on trafficking in net operating loss carryovers	62. Oppose Senate provision.

Discussion: The provision would significantly alter the tax consequences of certain corporate acquisitions where one of the parties to the transaction has net operating loss carryovers. The Administration strongly recommends that no such basic changes be made without an opportunity for study and comment by the major professional associations and other interested parties. The Internal Revenue Service has indicated that the provision will be difficult to administer due to its uncertainty and complexity. These factors may also impede legitimate business transactions.

If the provision is adopted, the Administration recommends that its effective date be delayed for at least one year and that Congress invite comments and specifically undertake to make necessary substantive and technical modifications prior to its effective date.

Administration Position

63. Credit for artist's donations of own work to charitable organizations

63. Oppose Senate provision.

Discussion: If a credit is allowed for artist's donations of his own work, the Administration prefers a 5 year holding period before the artist is eligible for such credit.

Title IX - Small Business Provisions

64. Continuation of changes in corporate tax rates and increase in surtax exemption.

64. Support Senate provision.

Discussion: Making the tax changes permanent is part of the President's deepened tax cut proposal. Also, the extension of the tax cuts to mutual insurance companies corrects a clear drafting oversight in the Tax Reduction Act.

Title X -- Changes in the Treatment of Foreign Income

	Administration Position
65. Income earned abroad by U.S. citizens living or residing abroad	65-1. Prefer the House bill, but do not object to the Senate version. 65-2. Do not oppose the Senate provision.
66. Income tax treatment of non-resident alien individuals who are married to citizens or residents of the United States	66-1. Support. 66-2. Support. 66-3. Support the Senate provision. Effective date. Prefer Senate effective date.
67. Foreign trusts having one or more United States beneficiaries to be taxed currently to grantor	67-1. Support. Prefer the Senate change. 67-2. Support. Effective date. Prefer Senate effective date.
68. Interest charge on accumulation distributions from foreign trusts	68. Support. Prefer the Senate version. Effective date. Prefer Senate effective date.
69. Excise tax on transfers of property to foreign persons to avoid Federal income tax	69. Support. Prefer the Senate version.

Administration Position

70. Amendment of provisions relating to investment in U.S. property by controlled foreign corporations

70. Support the change from present law, and prefer the Senate bill.

Effective date. Prefer Senate effective date.

71. Shipping profits of foreign corporations

71-1. Support. Prefer the Senate version.

71-2. Oppose the House provision.

71-3. Do not oppose Senate provision.

72. Agricultural products

72. Oppose the House provision and support the Senate bill which would make no change in present law.

Discussion: The House provision would change present law to make it more difficult to administer.

73. Requirement that foreign tax credit be determined on overall basis

73. Do not object to the elimination of the per-country limitation. Support the Senate version. Oppose the House provisions which would retain the per-country for possession source income, and delay the effective date for 3 years in the case of mining companies.

Discussion: The House provision would single out possession source income and mining companies for special treatment which discriminates against other taxpayers. The Administration cannot find any reason to single out these two classes of taxpayers for this kind of special treatment.

	Administration Position
74. Recapture of foreign losses	74. Support the recapture of foreign losses, and prefer the Senate version.
75. Treatment of capital gains for purposes of foreign tax credit	75. Support and prefer the Senate version.
76. Foreign oil and gas extraction income	
a. Transitional rule for foreign tax credit limit	76a. Oppose the House provision.

<u>Discussion</u>: Generally oppose retroactive relief granted by the House provision.

b. Definition of foreign oil-related income	76b. No objection to Senate provision.

<u>Discussion</u>: The Senate provision is consistent with the inclusion of interest from foreign corporations and dividends in the definition of foreign oil related income.

c. Foreign oil and gas extraction income earned by individuals	76c. Support Senate provision.
d. Tax credit for production-sharing contracts	76d. Do not oppose the Senate provision.

Administration Position

76. Foreign oil and gas extraction income

e. Reduction in amount allowed as foreign tax credit on oil extraction income

76e-1. Support the Senate provision, with modifications.

Discussion: The Administration supports limiting the credit for oil and gas extraction taxes to 48 percent. However, the Administration recommends that the limit be computed not on a country-by-country basis, but by applying the overall limitation separately with respect to oil extraction income and other income using the regular section 904 rules for carryovers, etc.; that the definition of oil and gas extraction income be narrowed to include dividends only when they are from a foreign corporation when taxes are deemed paid with respect to those dividends; that interest be excluded from the definition.

76e-2. Oppose the Senate provision.

Discussion: The Administration opposes the attempt to define the portion of the payment to a foreign government which is a royalty. A new definition would only confuse the issue. It would raise doubts as to the applicability and the effect of recent IRS statements concerning the creditability of taxes. It would cloud the applicability of the law in non-oil and gas areas.

77. Underwriting income

77. Support the Senate provision.

78. Third-tier foreign tax credit when section 951 applies

78. Support Senate provision.

	Administration Position
79. Interest on bank deposits earned by nonresident aliens and foreign corporations	79. Support the House provision.

Discussion: The Administration strongly supports the permanent exemption which is contained in the House provision.

80. Changes in ruling requirements under section 367; certain changes in section 1248	80-1. Strongly support the change in present law, and prefer the Senate version. 80-2. Support the change in present law, and prefer the Senate version. 80-3. Strongly support the change in present law, and prefer the Senate version.
81. Contiguous country branches of domestic life insurance companies	81. Do not object to either version.
82. Tax treatment of corporations conducting trade or business in Puerto Rico and possessions of the United States	82-1. Do not object to the change in present law. Prefer the Senate version. 82-2. Do not object. Effective date. Prefer Senate effective date.
83. Repeal of provisions relating to China Trade Act Corporations	83. Support the phaseout generally, and prefer the Senate version.

	Administration Position
84. Denial of certain tax bene-fists on international boycotts and bribe-produced income	84. Strongly oppose the Senate provision.

Discussion: The Senate provision is an inappropriate means of dealing with the problems of boycotts and bribes. Moreover, these provisions would create substantial administrative problems.

Title XI -- Domestic International Sales Corporations (DISCs)

	Administration Position
85. Amendments affecting DISC	85. Oppose both the House and Senate versions.

Discussion: In the context of the House and Senate bills, the Administration recommends the following compromise position:

1. Incremental rule limiting DISC benefits to the extent current export gross receipts exceed 60 percent of the average for 3 out or 4 base period years (initially 1972-1975);
2. Base period moves forward after 1980;
3. Exception to incremental rule contained in House and Senate versions for DISCs having taxable income of $100,000 or less for a taxable year;
4. DISC benefits retained for agriculture;
5. DISC retained for military sales;
6. Technical changes with respect to disqualification recapture and producer's loans as in House version;
7. Senate provisions relating to distributions of DISC stock and double counting in the case of distribution to meet qualification requirements;
8. Effective date: for incremental rule - taxable years beginning after December 31, 1976.

Title XII - Administrative Provisions

	Administration Position
86. Public inspection of written determinations by Internal Revenue Service	86. Support Senate provision.

Discussion: The Senate provision reflects a compromise worked out among representatives of the tax bar, the accounting profession, the Internal Revenue Service, the Treasury Department and public interest firms. Thus, the provision represents a publicly considered solution to a problem which has been the subject of extensive and costly litigation over the past several years. Certain technical matters, however, should be clarified by the Conference Committee.

	Administration Position
87. Disclosure of returns and return information	87. a-c. Support Senate provisions.
a) In general	
b) Definition of returns and return information	
c) Disclosure to Congress	

	Administration Position
d) White House (and other Federal agencies)	d-e. Support Senate provisions
e) Civil and Criminal tax cases	

Administration Position

f) Nontax criminal cases

f. Oppose requirement of "probable cause" for disclosure to Justice Department and other Federal agencies of taxpayer information in nontax criminal cases. Prefer Finance Committee amendment.

g) Nontax civil matters

h) General Accounting Office

g-h. Support Senate provisions.

	Administration Position
i) Statistical use	i-n. Support Senate provisions with following modification: - Tax information disclosed to Federal, State and local welfare agencies should be limited to the tax information available from the IRS individual master files.
j) Other agencies - inspection on a general basis	
k) State and local governments	
l) Taxpayers with a material interest	
m) Miscellaneous disclosures	
n) Procedures and records concerning disclosure	

	Administration Position
o) Safeguards	o-q. Support Senate provisions.
p) Reports to Congress	
q) Enforcement	
88. Income tax return preparers	88. Support Senate provision.

Administration Position

89. Jeopardy and Termination Assessments

89. Support Senate provision.

Discussion: The Senate provision protects taxpayers against any abusive use of jeopardy and termination assessments, while providing more flexibility than the House provision for a mutually satisfactory disposition. Also, the Senate provision deals with the issues presented by the Supreme Court decision in Laing v. United States.

The Administration recommends that the effective date be February 28, 1977 to provide the IRS time to implement the new provision.

90. Administrative summons

90. Prefer Senate provision.

Discussion: The Administration recommends that the effective date be February 28, 1977 to provide the IRS time to implement the new provision. Certain other technical matters should be clarified by the Conference Committee.

91. Assessments in case of mathematical or clerical errors

91. Support Senate provision.

	Administration Position
92. Withholding State income taxes from military personnel	92. Support House or Senate provision.
93. Withholding of State or local income tax from members of the National Guard or ready reserve	93. Support Senate provision.
94. Voluntary withholding of State income taxes from Federal employees	94. Support Senate provision.
95. Definition of city for purposes of withholding	95. Enacted into law (Public Law 94-).
96. Withholding tax on certain gambling winnings	96. Support Senate provision but oppose Senate floor amendment excluding State lotteries from withholding requirements.
97. Withholding of Federal taxes on certain individuals engaged in fishing	97. Oppose Senate provision.

Discussion: The Administration recommends that the exemption be limited to one crewman (in addition to the operator) to deal with the problem of fishermen who own their own boats and hire crewmen on an intermittent basis.

Administration Position

98. Voluntary withholding of State income taxes in the case of certain legislative officers and employees

98. No objection to House provision

99. Minimum exemption from levy for wages, salary, and other income

99. Support Senate provision.

Discussion: The Administration recommends that the effective date be February 28, 1977 to provide the IRS time to implement the new provision.

100. Joint Committee Refund Cases

100. Support Senate provision.

Discussion: The Administration recommends that the provision be made applicable to refunds submitted to Joint Committee after the date of enactment of H.R. 10612.

101. Use of Social Security numbers

101. Support House provision.

Discussion: The Administration recommends that the use of social security numbers be limited to Federal, State and local tax administrative purposes.

Administration Position

102. Interest on mathematical errors on returns prepared by IRS

102.

103. Award of Costs and Attorneys' Fees to Prevailing taxpayer

103. Oppose Senate provision.

Discussion: With an opportunity for recovery of attorney's fees, which are not normally awarded the prevailing party in litigation, there will be a greater incentive for litigation, even though the amount involved may be small and the taxpayer's case may appear frivolous on its face.

Title XIII - Miscellaneous Provisions

	Administration Position
104. Certain housing associations	104. Support Senate provision.
105. Tax treatment of certain 1972 disaster loans	105. Support provision with April 15, 1977 date (Senate provision) for payment of first annual installment of unpaid tax liability.
106. Worthless debts of political parties	106. Support provision with Senate effective date.

Discussion: The Administration opposes the retroactive application of the provision provided by the House bill.

<u>Administration Position</u>

107. Exemption from taxation of interest on bonds issued to finance certain student loans	107. Oppose Senate provision.

<u>Discussion</u>: The Senate provision creates an undesirable precedent for the issuance of tax-exempt bonds by private corporations having only a minimal connection with governmental units. The Treasury Department has proposed regulations dealing with this question and is working on them with state and local representatives.

108. Prepublication Expenditures	108. Oppose House provision.

<u>Discussion</u>: The tax treatment of prepublication expenses should not depend upon the particular past practice of an individual publisher but upon sound tax rules of general application.

109. Income from lease of intangible property as personal holding company income	109. Oppose Senate provision.

<u>Discussion</u>: The Senate provision (adopted as a floor amendment) extends retroactive relief to one taxpayer and reverses through legislation an adverse decision rendered against that taxpayer in the Court of Claims. The Treasury Department would not object to the provision as amended by the Senate Finance Committee on July 23, 1976, <u>if</u> the provision were made prospective only.

	Administration Position
110. Work Incentive (WIN) and Federal Welfare Recipient Employment Tax Credits	110. Oppose Senate provision.
111. Repeal of excise tax on certain parts for light-duty trucks	111. No objection to Senate provision.
112. Exemption from manufacturers' tax for certain articles resold after certain modifications	112. No objection to Senate provision.

	Administration Position
113. Franchise Transfers	113. Support Senate provision.
114. Clarification of an employer's duty to keep records and to record tips	114. Oppose Senate provision.

Discussion: Tip income has presented IRS with chronic compliance problems due to a lack of reliable records from which the correct amount of tips can be verified. The Senate provision obviates sound attempts by IRS to alleviate these problems.

115. Pollution Control Facilities: 5-year amortization and investment credit	115. Support Senate provision with certain modifications: - section 169 should be extended only until December 31, 1980; and - the present definition of pollution control facility and the requirement that a facility be added to a plant etc., in operation by January 1, 1969 should be retained.

Discussion: As modified, the provision carries out the purpose of section 169 by accomodating further upgrading of pre-1969 plants.

116. Qualification of fishing organizations as tax-exempt agricultural organizations	116. No objection to Senate provision.
117. Subchapter S corporation shareholder rules	117. Support Senate provision.

	Administration Position
118. Application of section 6013(e)	118. Oppose Senate provision.

Discussion: The Senate provision extends retroactive relief to a limited number of taxpayers.

119. Modifications in percentage depletion for oil and gas	119-1,2. No objection to Senate provision.
	-3,4. Support Senate provision.

Discussion: The Administration believes that the provisions should apply to all similarly situated taxpayers. There is no justification for the exclusion of certain trusts from these provisions.

120. Implementation of Federal State Tax Collection Act of 1972	120. No objection to Senate provision with certain modifications.

Discussion: The Administration opposes the provision precluding any user charge and opposes reducing from two States to one the number of States necessary to start the system.

121. Cancellation of certain student loans	121. No objection to Senate provision.

Administration Position

122. Simultaneous liquidation of parent and subsidiary corporations

122. Support Senate provision.

Discussion: The Senate provision eliminates a trap for the unwary.

123. Prohibition of State-Local Taxation of Certain Vessels, Barges, or Crafts Using Interstate Waterways

123. Oppose Senate provision.

Discussion: The Federal government has, over the years, imposed relatively few constraints on the power of States to impose taxes. The fact that current State practices impose record keeping and financial burdens upon barge operations is not a sufficient reason for the Federal government to prevent the States from imposing taxes on this form of transportation.

124. Contributions in Aid of Construction for Certain Utilities

124. Oppose Senate provision.

Discussion: The Senate provision departs from the general tax principle that payments for services constitute taxable income.

125. Prohibition of Discriminatory State or Local Taxes on Generation or Transmission of Electricity

125. No objection to Senate provision.

126. Deduction for cost of removing architectural and transportational barriers to handicapped and elderly

126. Oppose Senate provision.

Administration Position

127. Publication of statistics of income

127. No objection to Senate provision.

128. Report on tax increases resulting from inflation

128. No objection to Senate provision.

129. Taxation of certified historic structures

129. Support Senate provision.

Discussion: The Senate provision provides a variety of measures designed to equalize the tax treatment of new buildings and restored historic structures and has the Administration's full support.

	Administration Position
130. Supplemental Security Income for victims of certain natural disasters	130. No objection to Senate provision.

Administration Position

131. Exclusion of countries which aid and abet international terrorists from preferential tariff treatment

131. Oppose Senate provision.

Discussion: The trade laws are not an appropriate vehicle for solving complex foreign policy problems.

132. Net operating loss deduction for Cuban expropriation

132. Oppose Senate provision.

133. Study of tax treatment of married, single persons

133. No objection to Senate provision.

Title XIV - Capital Gains and Losses

	Administration Position
134. Increase in amount of ordinary income against which capital loss may be offset	134. Support House provision.

Discussion: There has been no change in the $1,000 offset since 1942, and the economic value of this deduction has decreased significantly since that time.

135. Increase in holding period for long-term capital gains	135. Support House provision.

Discussion: The reasons for distinguishing between long-term and short-term capital gains - the "bunching" problem and the need to differentiate between assets held for investment and speculation - suggest that the distinction should be drawn on the basis of one full year.

Title XV - Pension and Insurance Taxation

	Administration Position
136. Individual retirement account (IRA) for spouse	136. No objection to Senate provision.

Discussion: The Administration recommends a broad study of retirement security which would give consideration to the future protection of housewives.

137. Limitation on contributions to certain H.R. 10 plans	137. No objection to Senate provision.
138. Deduction for retirement savings of private and government employees - limited employee retirement accounts	138. Support House provision. No objection to Senate provision.

	Administration Position
139. Retirement deductions for members of Armed Forces Reserves and National Guard	139. Support Senate provision.
140. Tax-exempt annuity contracts in closed end mutual funds	140. No objection to Senate provision.
141. Pension fund investments in segregated asset accounts of life insurance companies	141. No objection to Senate provision.
142. Extension of study of salary reduction and cash or deferred profit-sharing plans	142. No objection to Senate provision.

	Administration Position
143. Consolidated returns for life and mutual insurance companies	143. No objection to Senate provision.
144. Guaranteed renewal life insurance contracts	144. Support Senate provision.
145. Tax-free rollover in event of plan termination	145. Enacted into law (Public Law 94-267).

Title XVI - Real Estate Investment Trusts

	Administration Position
146. Deficiency dividend procedure	146. Support Senate provision.
147. Failure to meet income source tests	147. Support Senate provision.
148. Treatment of property held for sale to customers	148. Support Senate provision.
149. Increase in 90-percent gross income requirement to 95 percent	149. Support Senate provision.
150. Change in definition of "rents from real property"	150. Support Senate provision.
151. Change in distribution requirements	151. Support Senate provision.
152. Manner and effect of termination or revocation of election	152. Support Senate provision.

Administration Position

153. Excise tax on distribution made after taxable year

153. Support.

154. Allowance of net operating loss carryover

154. Support Senate provision.

155. Alternative tax in case of Capital Gains

155. Support Senate provision.

Discussion: The Senate provisions incorporate perfecting amendments to the House bill and thus are preferable.

Title XVII - Railroad Provisions

	Administration Position
156. Amortization of track accounts	156. Oppose Senate provision.

Discussion: The retirement-replacement method of accounting for depreciation of track already provides significant advantages to railroads.

157. Railroad ties	157. Support Senate provision (other than the Senate floor amendment of Senator Stone).

Discussion: The Finance Committee amendment provides a more uniform application of the retirement-replacement method of accounting than the House provision or the Senate floor amendment.

158. Investment credit for railroads	158. Oppose Senate provision.

Discussion: The problems of railroads and airlines are fundamental. Therefore, meaningful assistance to these industries should be provided by means other than special changes in long-established tax principles governing the investment credit.

159. Investment credit for airlines	159. Oppose Senate provision.

Discussion: See discussion under #158.

Title XVIII - Tax Credit for Home Garden Tools

	Administration Position
160. Home garden tool credit	160. Oppose House provision.

Title XIX - Repeal and Revision of Obsolete, Rarely Used, Etc., Provisions of Internal Revenue Code of 1954

	Administration Position
161. "Deadwood" provisions	161. Support provision.

Discussion: The Administration recommends a clarifying amendment to the definition of "Secretary or his delegate".

Title XX - Energy-related Provisions

	Administration Position
162. Residential insulation credit	162. Prefer House provision with Senate effective date.

Discussion: The Senate provisions which increase the maximum credit will not result in any incremental increase in purchases, and the low income grants under the FEA extension act make refundability unnecessary. Moreover, there is no need to give credits to those who simply are replacing worn out heating systems.

163. Residential solar or geothermal energy equipment credit	163. Prefer Senate provision except for the refundable credit.

Discussion: The Administration is opposed to this tax credit because it does not believe that it will result in any incremental increase in the use of this equipment, but will result in a windfall to those few taxpayers who for personal reasons may be installing this presently uneconomical equipment. Moreover, there is no reason to provide an indirect tax credit when the Congress in the FEA extension act decided to study the feasibility of direct grants.

164. Residential heat pump credit	164. Oppose Senate provision.

Discussion: The Administration is opposed to the heat pump credit because it may be very costly, and because it will result in greater energy consumption since the restriction to replacements of electric resistance heating systems is unadministrable.

Administration Position

165. Credit for wind-related residential energy equipment

165. Oppose Senate provision.

Discussion: The Administration is opposed to this provision because it would not increase use of this equipment if it is economical, and because direct grants are preferable.

166. Business insulation credit

166. Prefer Senate provision due to its effective dates.

Discussion: This provision is unnecessary since a profit making organization can be expected to insulate if it will save enough energy to be cost effective. The tax credit would simply provide a windfall for expenditures that would occur anyway while inducing relatively little additional expenditures. Moreover, businesses will now be able to finance this equipment under the $2 billion loan guarantee program established under the FEA extension act.

167. Business solar and geothermal equipment credit

167. Prefer House bill rates with Senate effective dates.

Discussion: The Administration is opposed to this provision for the same reasons it opposes item 166, the business insulation credit.

168. Investment credit for wind-related energy equipment used in the production of electricity

168. Oppose Senate provision.

Discussion: The Administration is opposed to this provision for the same reasons it opposes item 166, the business insulation credit.

Administration Position

169. 12-percent credit for certain energy equipment

169.

Discussion: The necessary technology for increased utilization of most of this equipment is lacking at this time. Therefore, an investment credit such as this will have no substantial effect on their use at this time and will largely represent a windfall to those utilizing such equipment. As between an increased investment credit and a rapid amortization, an increased investment credit is preferable since an incentive based on rapid amortization favors equipment with a long useful life and discriminates against equipment with a short useful life.

a) Waste conversion equipment

a) Prefer Senate provision.

Discussion: See above discussion.

b) Organic fuel conversion equipment

b) Oppose Senate provision.

Discussion: See above discussion.

c) Railroad equipment

c) Prefer Senate provision.

Discussion: See above discussion.

Administration Position

d) Deep mining coal equipment

d) Prefer Senate provision.

Discussion: See discussion on preceding page.

e) Coal liquefication and gasification processing equipment

e) Prefer Senate provision.

Discussion: See discussion on preceding page.

f) Shale oil conversion equipment

f) Prefer Senate provision.

Discussion: See discussion on preceding page.

Administration Position

g) TVA compensatory adjustments — g) Oppose Senate provision.

Discussion: The TVA already has a substantial competitive advantage over commercial power companies in that it is not subject to Federal taxation. Further aid is not appropriate.

170. Deduction for production and intangible drilling costs of geothermal development — 170. Oppose Senate provision.

Discussion: As technology is developed, this industry may not need a permanent operating subsidy, particularly one which will establish a new form of drilling fund tax shelter. The Administration supports instead allowing geothermal drilling and precommercial development expenditures to be treated as research and experimental expenditures that may be expended under section 174.

171. Denial of investment for portable air conditioners and heaters — 171. Prefer Senate effective date.

Discussion: The investment credit should not be selectively modified to carry out policies inconsistent with the purpose of the investment credit provision, particularly when little energy will be saved and business decisions of taxpayers will be distorted.

	Administration Position
172. Study of recycling incentives	172. No objection to Senate provision.

Discussion: The Administration has already studied this proposal and has found it to be very costly and ineffective. Further study is not likely to change these findings.

173. Repeal of manufacturers excise tax on buses and bus parts	173. Oppose Senate provision.
174. Excise tax on rerefined lubricating oil	174. Oppose Senate provision.
175. Exemption from retail excise tax on special motor fuels in nonhighway use	175. No objection to Senate provision.
176. Duty-free exchange of crude oil	176. No objection to Senate provision.

Title XXI - Tax Exempt Organizations

	Administration Position
177. Modification of self-dealing transitional rules in 1969 Act relating to leased property	177. No objection to Senate provision.
178. Private foundation set-asides	178. No objection to Senate provision.
179. Mandatory payout rate for private foundations	179. Support Senate provision.

Discussion: The present fluctuating payout rate is steadily eroding the endowments of private foundations.

180. Extension of Time to Amend Charitable Remainder Trust Governing Instrument	180. No objection to Senate provision.

Administration Position

181. Reduction of private foundation excise tax on investment income — 181. Support Senate provision.

Discussion: The excise tax should be limited to the amount required to cover the cost of auditing exempt organizations. The 2% rate of the Senate provision will cover such costs.

182. Unrelated trade or business income of trade shows, State fairs, etc. — 182. Oppose Senate provision.

Discussion: The Administration would have no objection to an exemption for trade shows that did not change the qualification requirements for exempt organizations.

183. Declaratory judgments regarding tax-exempt status as charitable etc., organization — 183. Support Senate provision with House effective date.

	Administration Position
184. Provision for establishment of alcoholism trust fund	184. Oppose Senate provision.
185. Exclusion of certain companion sitting placement services from employment tax requirements	185. No objection to Senate provision.
186. Minimum distribution requirements to include miscellaneous distributions	186. Oppose Senate provision.

Discussion: The special rule for distributions of $200 or less for "civic or community activities" should be clarified to cover only those activities in furtherance of charitable purposes.

Title XXII - Estate and Gift Tax Provisions

	Administration Position
187. Allowance of credit against the estate tax	187. Support House provision.

Discussion: The Administration proposed an increase in the estate tax exemption to $150,000 and the elimination of the lower bracket rates on the first $100,000 of taxable estate, with both changes phasing in over five years. The House bill achieves substantially equivalent results.

188. Unification of estate and gift tax rates	188. No objection to House provision.
189. Transfers made within 3 years of death	189. Support House provision.
190. Gross up for gift taxes	190. Support House provision.
191. Increase in estate tax marital deduction	191. Support House provision.

Discussion: The Administration proposed an unlimited marital deduction for estate and gift tax purposes.

Administration Position

192. Increase in gift tax marital deduction	192. Support House provision.

Discussion: See discussion for #191.

193. Joint interests	193. Support House provision.

194. Special valuation for certain types of property	194. Prefer House provision.

Discussion: The Administration prefers the House provision since it is more limited in scope and more tightly drafted. Both provisions will tend to lock elderly people and their heirs into potentially inefficient uses of the land.

Administration Position

195. Extension of time for payment of estate tax

195. Support House provision.

Discussion: The Administration supports the greater liberalization of the extension provisions in the House provision. It also supports the tightening of eligibility requirements although it is concerned that the House requirements may be too strict.

196. Redemption of stock to pay estate tax

196. Support House provision.

Discussion: The Administration supports the limitation of the favorable treatment to shareholders whose interests in the estate are reduced by the payment of the taxes, etc., but it is concerned that the tougher qualifications for eligible closely-held business interests may be too strict.

197. Carryover basis

197. Opposed to House provision.

Discussion: The Administration opposes any change in the present stepped-up basis rule, under which the heirs receive a new fair market value basis for property transferred from a decedent.

	Administration Position
198. Generation-skipping transfers	198. Because of major technical deficiencies in both bills and the great complexity of the subject, the Administration recommends that the Conference take no action on this issue and delete both provisions.
199. Orphans' exclusion	199. No objection to House provision.
200. Requirement that IRS furnish a statement explaining estate or gift valuation	200. No objection to House provision.
201. Gift tax returns	201. Support House provision.

	Administration Position
202. Public index of filed tax liens	202. Oppose House provision.
203. Inclusion of stock in decedent's estate where decedent retains voting rights	203. Support House provision.
204. Disclaimers	204. Support House provision.
205. Estate & gift tax exclusions for qualified retirement benefits	205. Support House provision.
206. Gift tax treatment of certain community property	206. Support both provisions.

	Administration Position
207. Income tax treatment of certain selling expenses of estates and trusts	207. Support House provision.
208. Estate tax credit for payment in kind	208. No objection to Senate provision.

Title XXIII - Other Amendments

	Administration Position
209. Outdoor advertising displays	209. No objection to Senate provision.
210. Tax treatment of large cigars	210. Support Senate provision.

Discussion: If the bracket rate were changed to 10%, rather than 8-1/2% (the Senate provision), there would be no revenue loss and administration of the tax would be facilitated.

211. Gain from sales or exchanges between related parties	211. Support Senate provision.
212. Uniformed Services Health Professions Scholarships	212. Support Senate provision.

Discussion: The Administration supports the floor amendment by Senator Ford which was adopted by the Senate.

Administration Position

213. Tax counseling for the elderly

213. Oppose Senate provision.

Discussion: Special tax assistance for the elderly is unnecessary in light of the IRS' current, effective taxpayer assistance program. Also, the provision for tax-free reimbursement of expenses furthers the proliferation of statutory exemptions in the tax code.

214. Commission on value added taxation

214. No objection to Senate provision.

Administration Position

215. Exchange funds

215. Support House provision.

Discussion: The Senate provision unnecessarily broadens the "grandfather" clause for partnership exchange funds and provides a special exception for certain family partnerships.

216. Distributions by subchapter S corporations

216. No objection to Senate provision.

Title XXIV

217. Voting by Commission on import relief

217. Oppose Senate provision.

Discussion: It is important for the U.S. International Trade Commission to reach definitive majority positions. The Administration therefore supports the objectives underlying the Senate provision. However, the Administration opposes this specific provision because it could have the effect of allowing the vote of a minority of the Commissioners to be binding on the President and the Congress. The problem could best be dealt with in a separate bill after full public hearings and discussion of the problems.

	Administration Position
218. Increase in number of Commissioners	218. Oppose the Senate provision.

Discussion: The Administration would support reducing the number of Commissioners from six to five.

219. Authorization of appropriations	219. No objection to Senate provision.
220. Administration of the Commission	220. Support Senate provision.
221. Continuation of reports with respect to synthetic organic chemicals	221. No objection to Senate provision.

Title XXV

	Administration Position
222. Contributions of certain Government publications	222. No objection to Senate provision.
223. Lobbying by public charities	223. Support Senate provision.
224. Tax liens, etc., not to constitute "acquisition indebtedness"	224. No objection to Senate provision.

Discussion: The Administration recommends technical revisions to the Senate provision to ensure that it applies only to special assessments of a type normally made by a State or local governmental unit or instrumentality and cannot be utilized as a device for financing improvements to an exempt organization's property.

	Administration Position
225. Extension of private foundation transitional rule for sale of business holdings	225. No objection to Senate provision.
226. Private operating foundations; Imputed interest; Libraries and museums	226. No objection to Senate provision except for the exemption of libraries and museums from the section 4940 tax.

Discussion: The exemption for libraries and museums from the audit fee tax has no real justification. It creates another species of foundation which is especially difficult to define.

227. Study of tax incentives	227. No objection to Senate provision.

Title XXVI - Other Miscellaneous Amendments

	Administration Position
228. Credit for certain education expenses	228.
229. Interest on certain governmental obligations for hospital construction	229. Oppose Senate provision.

Discussion: This selective expansion of current law is not warranted - private hospitals will invest only where a profit is expected. The precedent is bad - other private businesses will seek similar treatment, and such proliferation of tax-exempt industrial development bonds would adversely affect state and local borrowing.

230. Group prepaid legal services	230. Oppose Senate provision.

Discussion: The Senate provision is contrary to the well-established tax principle that deductions for personal expenses are generally not allowed.

231. Unrelated business income from services provided by a tax-exempt hospital to other tax-exempt hospitals	231. Oppose Senate provision.

Discussion: The Senate provision will allow certain hospitals to engage in the business of selling services to other hospitals in competition with commercial operators. No provision is made for passing savings on to small hospitals who may be charged more than cost for the services provided. Thus, the Administration opposes this provision.

Administration Position

232. Clinical services of cooperative hospitals — 232. No objection to Senate provision.

233. Certain charitable contributions of inventory — 233. No objection to Senate provision.

Discussion: The limitation of the maximum deduction to twice the manufacturer's basis for the property ensures that a company cannot profit by manufacturing solely to make charitable contributions.

Title XXVII - Additional Floor Amendments

	Administration Position
234. Tax credit for expenses for certain amateur athletes	234. Oppose Senate provision.

Discussion: The President's Commission on Amateur Athletics has been requested by the President to study further the issue of incentives for amateur athletes. Any tax relief at this time is, therefore, premature.

235. Exemption of certain amateur athletic organizations from tax	235. Oppose Senate provision.

Discussion: See discussion #234.

236. Taxable Status of Pension Benefit Guaranty Corporation	236. Support Senate provision.

Discussion: The Senate provision rectifies an apparent oversight in the ERISA legislation.

237. Level premium plans covering owner-employees	237. No objection to Senate provision.
238. Lump-sum distributions from pension plans	238. No objection to Senate provision.

	Administration Position
239. Tax treatment of the grantor of certain options	239. Support H.R. 12224 with Senate September 1, 1976 effective date.

Discussion: In order to avoid uncertainty for current transactions, it would be appropriate to adopt a date of enactment effective date.

240. Exempt-interest dividends of regulated investment companies	240. No objection to Senate provision.

Discussion: Will enable investors with limited funds to acquire tax-exempt bonds, thus helping to provide a more efficient market for state and local obligations.

241. Commission on tax simplification and modernization	241. No objection to Senate provision.
242. Common trust fund treatment of certain custodial accounts	242. Support Senate provision.

	Administration Position
243. Oil and Gas Depletion Rules Relating to Transfers of Proven Property	243. No objection to Senate provision.
244. Support test for dependent children of separated or divorced parents	244. No objection to Senate provision.
245. Deferral of gain on involuntary conversion of real property	245. Oppose Senate provision.
246. Exclusion from gross income of gain from sale of residence by taxpayer who has attained age 65	246. Support Senate provision.

Administration Position

247. Exemption from taxation for certain mutual deposit guarantee funds	247. Support Senate provision.

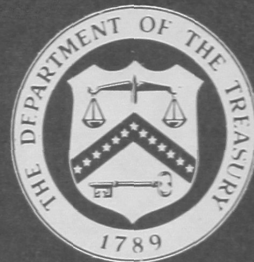
Discussion: The January 1, 1969 limitation should be deleted. Otherwise, the provision will have to be further amended for corporations organized after 1968. The Administration prefers the approach taken in H.R. 13532 (94th Cong., 2d Session).

248. Additional changes in subchapter S shareholder rules	248. Support Senate provision.
249. Individual retirement accounts for volunteer firemen	249. No objection to Senate provision.
250. Optional taxable year of inclusion for sale of livestock on account of drought	250. Oppose Senate provision.

Discussion: The present tax deferral rules with respect to livestock provided by section 1033 of the Internal Revenue Code provide adequate relief for farmers in drought areas.

251. Sense of the Senate regarding revenue loss of bill in conference	251. ------

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE AT 12:00 NOON August 25, 1976

TREASURY TO AUCTION $2,000 MILLION OF 4-YEAR NOTES

The Department of the Treasury will auction $2,000 million of 4-year notes to raise new cash. Additional amounts of the notes may be issued to Federal Reserve Banks as agents of foreign and international monetary authorities at the average price of accepted tenders.

Details about the new security are given in the attached highlights of the offering and in the official offering circular.

Attachment

oOo

WS-1044

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 4-YEAR NOTES

August 25, 1976

Amount Offered:

To the public	$2,000 million

Description of Security:

Term and type of security	4-year notes - Series E-1980
Maturity date	September 30, 1980
Call date	No provision
Interest coupon rate	To be determined based on the average of accepted bids
Investment yield	To be determined at auction
Premium or discount	To be determined after auction
Interest payment dates	March 31 and September 30
Minimum denomination available	$1,000

Terms of Sale:

Method of sale	Yield auction
Accrued interest payable by investor	None
Preferred allotment	Noncompetitive bid for $500,000 or less
Deposit requirement	5% of face amount
Deposit guarantee by designated institutions	Acceptable

Key Dates:

Deadline for receipt of tenders	Tuesday, August 31, 1976, by 1:30 p.m., EDST
Settlement date (final payment due)	
a) cash or Federal funds	Tuesday, September 14, 1976
b) check drawn on bank within FRB district where submitted	Thursday, September 9, 1976
c) check drawn on bank outside FRB district where submitted	Tuesday, September 7, 1976
Delivery date for coupon securities	Tuesday, September 14, 1976

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

FOR IMMEDIATE RELEASE
FRIDAY, SEPTEMBER 3, 1976
CONTACT: PRISCILLA CRANE (202) 634-5248

A revised edition of "Audit Guide and Standards for Revenue Sharing Recipients" was issued today by the U.S. Treasury Department's Office of Revenue Sharing.

The updated Guide provides information to States and local governments and their auditors about procedures required to assure compliance with changes which have been made in the revenue sharing law and regulations since the first Audit Guide was issued, in October 1973.

The only amendment to revenue sharing law since the statute was passed in 1972 offers recipient governments the option of retaining data for 60 months, where more current data have been affected adversely by a Federally-declared disaster. The General Revenue Sharing Program is authorized by Title I of the State and Local Fiscal Assistance Act of 1972 (P.L. 92.512).

Recent changes in the regulations primarily affect the non-discrimination provisions of revenue sharing law. For example, the new Audit Guide includes standards for audit of recipient government records of the use of real

and tangible property purchased with shared revenues, since regulations promulgated last fall state that the non-discrimination provisions of revenue sharing law apply as long as such property is used and wherever it is used.

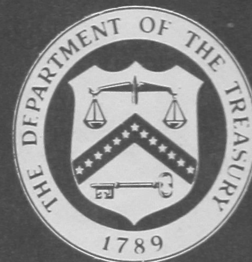
Civil rights reporting procedures incorporated in the Guide require that pending litigation and complaints be disclosed in audit reports.

Whereas the original Audit Guide stated that financial data provided to the U.S. Bureau of the Census and used in allocating revenue sharing funds must be on a cash basis, the new document indicates that an accrual basis may be used.

The new Guide clarifies audit procedures related to such matters as the return of previously-obligated revenue sharing funds to a recipient's trust fund; requirements of the Davis-Bacon (prevailing wage) Act; requirements of reports required to be filed with the Equal Employment Opportunity Commission; and procedures to verify the maintenance of transfer provisions of law which are applicable to state governments.

Individual copies of the new Audit Guide may be obtained from the Office of Revenue Sharing, 2401 E St., N.W., Washington, DC 20226.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



Contact: L.F. Potts
Extension 2951
August 27, 1976

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES THREE ACTIONS
UNDER THE ANTIDUMPING ACT

Assistant Secretary of the Treasury David R. Macdonald announced today three actions under the Antidumping Act. In the first action, Assistant Secretary Macdonald announced that he was issuing a dumping finding with respect to acrylic sheet from Japan. The dumping finding will be published in the Federal Register of August 30, 1976.

On April 29, 1976, the Treasury Department determined that acrylic sheet from Japan, other than that produced and sold by Mitsubishi Rayon Company, Ltd., was being, or likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended.

On July 26, 1976, the United States International Trade Commission advised the Secretary of the Treasury that an industry in the United States was being injured by reason of the importation of the subject merchandise from Japan, sold, or likely to be sold, at less than fair value.

After these two determinations, the finding of dumping automatically follows as the final administrative requirement in antidumping investigations.

Imports of acrylic sheet from Japan during calendar year 1975 were valued at approximately $3.7 million.

In the second action, Assistant Secretary Macdonald announced the initiation of an antidumping investigation on imports of pressure sensitive plastic tape from West Germany. Notice of this action will also be published in the Federal Register of August 30, 1976.

WS-1046

Assistant Secretary Macdonald's announcement followed a summary investigation conducted by the U.S. Customs Service after receipt of a petition alleging that dumping was occurring in the United States. The information received tends to indicate that there is injury to or likelihood of injury to or prevention of establishment of an industry in the United States.

Imports of the subject merchandise from West Germany during calendar year 1975 were valued at roughly $4.6 million.

In the third action, Mr. Macdonald announced an extension of investigatory period with respect to clear sheet glass from Romania. Because of the complicated nature of this case, the investigatory period is being extended from 6 months to no more than 9 months. Notice of of this action will appear in the _Federal Register_ of August 30, 1976. A tentative decision was to have been made on October 8, 1976, but will now be made on or before January 8, 1977.

Imports of the subject merchandise from Romania during the period January-June 1976 were valued at roughly $1.4 million.

o 0 o

ne Department of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 964-2041

Contact: L.F. Potts
Extension 2951
August 27, 1976

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES FINAL DETERMINATION OF SALES AT LESS THAN FAIR VALUE WITH RESPECT TO KNITTING MACHINES FOR LADIES' SEAMLESS HOSIERY FROM ITALY

Assistant Secretary of the Treasury David R. Macdonald announced today that knitting machines for ladies' seamless hosiery from Italy are being or are likely to be sold at less than fair value within the meaning of the Antidumping Act, 1912, as amended. Notice of this determination will be published in the Federal Register of August 30, 1976.

The case has been referred to the U.S. 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 injury determination, dumping duties will be assessed on all entries of the subject merchandise on which such affirmative determination is made and where dumping margins exist.

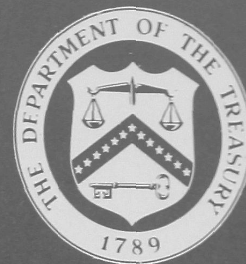
A "Withholding of Appraisement Notice," published in the Federal Register of May 21, 1976, stated that there was reasonable cause to believe or suspect that there were sales of the subject merchandise from Italy at less than fair value. Pursuant to this notice, interested persons were afforded the opportunity to present oral and written views prior to the final determination in this case.

Imports of the subject merchandise from Italy during calendar year 1975 were valued at approximately $3.25 million.

o 0 o

WS-1047

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE EDWIN H. YEO III
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE
THE SUBCOMMITTEE ON INTERNATIONAL FINANCE, SENATE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
FRIDAY, AUGUST 27, 1976, 10 A.M.

Mr. Chairman and Members of the Subcommittee:

I urge prompt and affirmative action on the legislation to approve amendment of the IMF Articles of Agreement and to consent to an increase in our IMF quota.

This is the most important legislation in the international finance field in many years. It represents international agreement on a new monetary system, formulated at Rambouillet and Jamaica, following lengthy international negotiations in which the United States played a leading role; and it strengthens the IMF's ability to deal with the world's problems of balance of payments financing and adjustment by a general increase in quotas.

The new monetary system is a more flexible, pragmatic, market-oriented system, replacing the exchange rate rigidity and gold emphasis of the Bretton Woods system which broke down five years ago.

The new system discards the outmoded and unworkable elements of Bretton Woods, but keeps and builds on the good features of that system. Most importantly, it retains the emphasis of the present IMF Articles on a liberal, open monetary and trading order; the commitment to cooperation and responsible international behavior in monetary affairs; and the central role of a proven institution -- the IMF -- as the heart and monitor of the system.

The new system, like the Bretton Woods par value system before it, seeks to promote monetary stability, but by a different approach. While Bretton Woods sought to impose monetary stability on the world by a structure of par values, the new system recognizes that monetary stability is the result not of par values but of orderly underlying economic and financial conditions in member countries.

WS-1048

Reflecting that change in approach, the new system changes the obligations of member countries. Under Bretton Woods, a fundamental obligation of each IMF member was to maintain a par value for its currency. No other exchange practice -- such as floating -- was recognized or tolerated. Under the Jamaica system, there is wide latitude for a member country to allow its currency to float or follow other exchange arrangements of its choice. The fundamental obligations are that countries must direct their policies toward fostering orderly underlying economic and financial conditions, and that they must avoid manipulating exchange rates to prevent balance of payments adjustment or to gain unfair competitive advantage. The new system thus concentrates on the real determinants of monetary stability -- stable economic and financial conditions -- rather than on the exchange rate consequences that were the main focus of Bretton Woods.

The new system is organically complete and workable. It has the flexibility to evolve as the world evolves, and it can be expected to function well in the years ahead without major revision. Its adoption has been widely accepted as a positive and beneficial move, a major structural improvement for the world economy. It is acceptable to 128 different nations of widely differing interests, needs, and attitudes, in a period of ferment and change in monetary doctrine. If it does not satisfy every enthusiastic reformer -- and any theorist tends to measure a new system against his own subjective judgment of the ideal monetary system -- it does certainly constitute a workable and pragmatic system that is a major improvement on the Bretton Woods system as it operated from 1950 to 1970. This new system is much better suited to dealing with today's problems than any conceivable variation of the stable but adjustable par value system.

The stable but adjustable par value system of Bretton Woods was in retrospect a "fair weather system." It worked fairly well in the late 1950's and early 1960's when we experienced low rates of inflation, had no massive dependence on expensive OPEC oil, faced only moderate capital flows, and enjoyed a long period of world prosperity.

The new system is a "system for all seasons." It recognizes that we can't always expect the pleasant economic environment of that earlier period. It recognizes that nations will not always be willing to follow the monetary and other macro-economic policies needed to keep prices and incomes in close harmony with their neighbors. It recognizes there will be differing propensities to inflate -- in Europe alone, price increases in the past year varied from 5 percent in Germany to 17 percent in Italy and 33 percent in Iceland. It recognizes that there has been a revolutionary change in exchange markets; that nations cannot afford to risk free speculation that results when a par value becomes unrealistic; that a nation cannot maintain in the face of market pressures an exchange rate that does not reflect its competitive position. And it recognizes that different exchange policies may be preferred by and appropriate for different countries. No single prescription necessarily meets the needs of all nations large or small, diversified or one-crop, manufacturing or primary producers. The Jamaica amendment makes it legal for countries to follow exchange practices over a wide spectrum from individual free floating, through managed floating, group floating and trotting pegs, all the way to pegged rates that are adjusted by infrequent changes.

While the new system will be a tolerant system, as IMF Managing Director Witteveen has put it "freedom of choice is not freedom of behavior." The Fund is empowered to exercise broad surveillance on all types of exchange practices of members, to promote international cooperation and avoid unfair competition or exchange policies that prevent international adjustment.

The IMF is in a very real sense the focal point, the core of the system. Members are obliged to provide the Fund with the information necessary for intelligent surveillance of their exchange rate policies. In addition, the Fund is called upon to adopt "specific principles" for the guidance of members with respect to those exchange rate policies to assure that manipulative practices are avoided. In the Bretton Woods system the Fund's attention was more likely to be directed toward a member in times of crisis, and more narrowly focused toward exchange markets. By contrast, under the new system, Fund consultations with members are likely to be more continuous, more broadly based, more concerned with the real international impact of a country's actions, and directed to all countries, not just those in deficit.

Fund surveillance and oversight of members' exchange rate policies does not mean that the Fund can determine the policies of sovereign countries. This would be totally impractical, and unacceptable to the United States and all Fund members. But one member's behavior should not be at the expense of other members' well being. Within that context, the Fund can develop general principles interacting with a type of common law based on application of these principles to individual cases, aimed at assuring that members' exchange policies promote stability and adjustment and are not designed to gain an unfair competitive advantage.

In developing specific principles, the Fund will need to proceed cautiously. Such principles must have very broad acceptance by Fund members. Their development cannot be forced, but they can be expected to emerge over time in the light of general and specific consultations with members. In this way, the general principles of acceptable behavior will evolve, grounded on the agreed objectives and obligations of the new system.

Detailed codes of behavior are not set forth in the amended Articles. Nor should they be. The original Articles drafted in 1944 contained specific rules and regulations -- far too many of which became obsolete and unworkable as time passed and conditions changed. The Articles is a constitution, not a contract. It should not prescribe detailed rules as these must take account of each individual case and circumstance -- particularly in an institution of such diverse country membership that the largest member is 60,000 times as big as the smallest in terms of GNP. Moreover, the amended IMF constitution is a flexible one, permitting a modification to a different kind of monetary system if conditions change and a large consensus favors such a move, and if detailed rules were to be included there would have to be rules for more than one system.

The Fund does have sanctions which can be applied when critical provisions of its Articles are violated -- most importantly it can deny an offending member access to its resources or it can exclude it from membership. But the IMF relies more on its moral force, as voice of the international community, and that carries considerable weight.

Some reformers have expressed concern that the new system does not establish formal IMF control over the level and growth of international reserves. This matter was discussed at great length in the reform negotiations. But no group, neither the developing countries, the oil exporters, nor the industrial nations showed any willingness to accept the restrictions on their ability to borrow, lend, or acquire currencies that would be necessary to establish quantitative limits on reserves. There is in addition considerable doubt in many quarters that placing such power of decision in an international body would be either effective or desirable. At the very least, the time for such a move would appear to be well in the future, not now.

A second and related major change in approach in the new system is the shift away from gold. Under the Bretton Woods system, gold, with its supply limitations, speculative pressures, and competing industrial demands, proved a capricious and volatile asset, unsuitable as a basis for the international monetary system -- just as it had earlier proved unsuitable as a basis for the U.S. and other domestic monetary systems. In recognition of these inadequacies, the new system promotes a further reduction in gold's monetary role, by eliminating gold's legal position as the central asset and numeraire of the monetary system, by eliminating the required use of gold in IMF transactions, and by empowering the IMF to dispose of its remaining gold holdings.

With dismantling of many IMF rules and restraints on official gold transactions, important side arrangements have been agreed among the Group of Ten -- the major gold holding nations -- to assure that gold does not re-emerge as a major international monetary asset. This understanding, which is not part of the amended Articles, but is consistent with and supportive of the policies of the amended Articles, provides that participating nations:

-- will not act to peg the price of gold;

-- will agree not to increase the total stock of monetary gold;

-- will respect any further conditions governing gold trading to which their central banks may agree; and

-- will report regularly on gold sales and purchases.

The arrangement took effect February 1, 1976, and will be reviewed after two years, and then continued, modified, or terminated. It is in our view an important and necessary safeguard during this transitional period, although I am firmly convinced that in any case gold's role in the monetary system will continue progressively to decline.

In parallel with phasing down gold's monetary role, the new system provides an expanded role for the Special Drawing Right, and modifies certain of the rules governing that new asset.

Under the amended Articles, the link between the SDR and gold is severed. The SDR replaces gold as the common denominator of the system, and is the unit for measuring IMF rights and obligations. The SDR is expected to take on an increasingly important role, not only as a unit of account used in measurements, but also as as asset used in transactions. With respect to its asset use, there is an obligation on members to collaborate with the Fund toward the objective of making the SDR the principal reserve asset of the international monetary system. Also the SDR takes over from gold the preferred status as asset to be received by the Fund in payment of charges, in meeting repurchase obligations, and to be accepted by members in exchange for currencies replenished by the Fund.

A number of technical steps have been taken to improve the SDR's quality and usability so that it may better fulfill its purposes. Thus countries will have greater freedom to enter into SDR transactions with each other on a voluntary basis; the possible uses have been expanded; and the Fund may broaden the categories of holders -- though not beyond official entities -- and the operations in which they engage. Also, the decisions for altering certain policies governing SDRs are made easier -- such as the terms and conditions governing approved transactions, and the rules that require countries to "reconstitute" or buy back after a certain period some of the SDRs they have spent.

At the same time these rules governing use of the SDRs are being eased, important safeguards have been retained which help assure that the SDR will remain a widely accepted and valued asset. Thus, the limit on members' obligation to accept SDR is retained, and IMF quotas remain the basis for new SDR allocations.

Both of the two main improvements in the monetary system -- the move to more flexible exchange rate arrangements and the move to reduce gold's monetary role -- are of critical importance to the United States. Under Bretton Woods, it was the dollar that was pinned down at the center of the system, and our exchange rate that could not adjust adequately in response to market forces -- with the result, in the late 1960's and early 1970's, not only of increased debts, but also of loss of jobs, productive capacity and transfer of our industry abroad. The new monetary system embodied in this legislation provides important safeguards against such an adverse position. This is a matter of critical importance to the strength of our economy and the prosperity of our citizens.

The amended Articles will terminate for IMF purposes existing par values for all IMF members. The legislation before you would repeal the par value of the dollar. Prior Congressional approval would be required to authorize any future establishment of a par value for the dollar in the Fund, or to authorize any change in the par value if one were established. The standard for the dollar of $42.22 per fine ounce of gold in present legislation would be retained solely with respect to gold certificates held by the Federal Reserve System -- the only domestic purpose for which a par value in terms of gold is needed. These gold certificates are being retired by the Treasury as its gold holding are sold.

I have confined my remarks to the major points. Numerous other changes being made to improve the operation of the IMF and the monetary system are explained in detail in material we have submitted to the Congress.

This legislation has been approved in the House by a large majority, and favorably reported by unanimous vote of the Senate Foreign Relations Committee. It is urgent that the Congress move promptly and affirmatively to complete legislative action. Since the breakdown of Bretton Woods five years ago, international exchange arrangements have of necessity been operating outside the law. We must restore the structure of an equitable, workable, lawful system. The United States has played a prominent role in bringing about acceptance of the new arrangements, and our acceptance of them will encourage others to follow so that we can implement these proposals with a minimum of delay.

oo 0 oo

ie Department of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE GEORGE H. DIXON
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SENATE COMMITTEE ON BANKING,
HOUSING AND URBAN AFFAIRS
AUGUST 31, 1976

The International Banking Act of 1976 (H.R. 13876)

Mr. Chairman and Members of the Subcommittee:

It is a pleasure to appear before this Subcommittee to present the Administration's position on the proposed International Banking Act of 1976 (H.R. 13876). At the outset, I should note that the Administration supports the bill and urges its passage with certain modifications which I will discuss.

Broadly speaking, we feel that the bill is an appropriate vehicle to achieve, with respect to foreign banks operating in the United States, (1) more equal treatment with domestic banks and (2) the degree of supervision and control necessary for the maintenance of sound regulatory and monetary policies.

Basic Reasons for Administration Support

During the last decade, international banking activity has increased dramatically both overseas and in the United States. This growth is related to the extraordinary increase in international trade in the post-World War II period and the reduction of international barriers to financial and investment flows. Total assets of foreign banks in the United States have increased ten-fold from about $6 billion

at the end of 1966 to about $64 billion at the end of 1975. During this same interval, U.S. banking activities abroad have increased even more rapidly. The assets of foreign branches of U.S. banks grew fourteen-fold from about $12 billion at the end of 1966 to $176 billion at the end of 1975.

This dramatic growth illustrates the increasing importance of international banking and the need to ensure equality of operating authority for, and regulation of, foreign banks in the United States. It also suggests that we must consider carefully the effect that U.S. regulation of foreign banks will have on foreign government treatment of U.S. banks, securities firms and other financial institutions operating abroad.

Our policy towards foreign banking in the United States should also be considered in the context of our overall policy on foreign investment in this country. Our basic policy is to welcome such investment and to accord foreign investors treatment which is comparable to treatment of domestic enterprise. As a result, the Administration considers it desirable and important to achieve comparable treatment of foreign and domestic banks in the United States.

Under existing law, there are significant disparities in treatment. For example, foreign bank branches and agencies are not currently regulated or supervised by any Federal banking agency, while virtually all domestic banks come under the regulation of the Federal Reserve, the Comptroller of the Currency, or the Federal Deposit Insurance Corporation. This gives foreign bank branches and agencies some advantages. On the other hand, foreign banks in the United States are denied certain opportunities available to domestic banks.

The International Banking Act of 1976 will, to the extent possible, alleviate many of the existing disparities. It will provide more comparable Federal regulation and supervision. It will permit foreign citizens to become majority shareholders and directors of Edge Act Corporations and to occupy nearly half of the directorships of foreign-controlled national banks. In addition, it will impose restrictions on interstate branching by foreign banks which are comparable to restrictions applied to domestic banks, while grandfathering existing multi-state operations. Foreign banks will also be prohibited from simultaneously engaging in commercial banking and securities activities in the United States, although in this instance existing operations will be grandfathered temporarily.

Proposed Changes in the Bill

The Administration recommends that the bill be modified in several respects.

1. Grandfathering of Securities Operations

We firmly believe that existing U.S. securities operations of foreign banks should be permanently grandfathered. Section 8(c) of the bill requires that foreign banks now lawfully engaged in selling and distributing securities in the United States must terminate these activities by December 31, 1985.

The Administration strongly supports permanent grandfathering for several reasons. First, securities affiliates have been operating in good faith in the United States, in some cases for over 35 years. It would be unnecessary and unfair to force termination of existing securities activities which have fully conformed with our laws and have provided desirable competition and liquidity to U.S. securities markets. Second, requiring foreign banks to dispose of their interests could disrupt domestic securities firms which have received infusions of capital from foreign banks. Third, it has not been shown that domestic financial institutions would be injured by permanent grandfathering of the few existing securities operations of foreign banks. Fourth, requiring foreign banks to terminate most of their United States securities operations could adversely affect those regional securities exchanges of which foreign bank affiliates are members. Fifth, there is ample precedent in banking legislation, especially Bank Holding Company Act legislation, for permanently grandfathering existing operations which do not conform with changes in the law. It would be inequitable to break with that precedent in the case of foreign banks. Finally, the absence of permanent grandfathering could have unfortunate consequences for the extensive activities of U.S. domestic banks and securities firms operating overseas.

2. Special Review of Foreign Bank Applications

We recommend the elimination of Section 9 of the bill. This section would introduce special Federal screening of applications by foreign banks desiring to establish operations within the United States. More specifically, Section 9 would require: (1) The Secretary of the Treasury to issue

guidelines containing general criteria for the admission of foreign banks; (2) Federal and state bank supervisory authorities to solicit the views of the Secretary of State, the Secretary of the Treasury and the Federal Reserve Board before acting on the applications; and (3) Federal and state banking authorities to disapprove applications unless foreign banks specifically state that they will comply with U.S. anti-discrimination laws which apply to domestically chartered banks.

We oppose the retention of Section 9 for several reasons. First, the section would apply only to foreign banks and would establish new criteria over and above those normally applied to both foreign and domestic banks. Second, this country has long followed an open-door policy towards international investment, and establishing a special screening process would conflict with this policy. Third, the special process provides no additional protection to U.S. depositors or to national interests since there are already adequate safeguards in existing law and administrative procedures and in the proposed legislation. Fourth, the creation of special guidelines and review procedures for the banking sector could set an unfortunate precedent for the establishment of similar procedures for investment in other sectors of our economy and could also induce other countries to introduce or expand restrictions on American banking activities and investments abroad. Finally, in so far as the review would apply to the establishment of banking operations which do not involve depository or fiduciary functions, this provision would appear to be contrary to the national treatment provisions of treaties which we have with most of the major banking nations.

3. Application of the Bank Holding Company Act

Section 8(a) of the bill applies the Bank Holding Company Act to foreign banks having U.S. branches and agencies. We believe this section should be amended to exempt from Bank Holding Company Act prohibitions those non-bank acquisitions by foreign banks that do not have a significant impact in the United States. In order for an acquisition or activity to have a significant impact, (1) the parent bank would have to exercise control over the non-bank enterprise in the United States and (2) the enterprise would have to have a substantial effect on commerce in the United States or any relevant market thereof.

To illustrate what might occur under the current version of Section 8(a), a foreign parent bank with a New York branch might wish to acquire a manufacturing company in its

home country in full accordance with its own laws. If the foreign manufacturer had an American manufacturing subsidiary, the foreign bank would indirectly acquire the American manufacturing subsidiary when it purchased the foreign firm. As a result, the parent bank would simultaneously engage in the United States in commercial banking and manufacturing. Accordingly, under Section 8(a), the proposed acquisition would be prohibited by the Bank Holding Company Act, unless it qualified for a regulatory exemption under that Act. The exemption process would rest solely on the Federal Reserve Board's discretionary authority with little specific statutory guidance.

We believe that it is desirable to give the Federal Reserve Board greater statutory guidance for two reasons. First, the existing exemption process creates considerable uncertainty for foreign banks concerning which foreign non-banking activities or acquisitions are permissible when they also affect United States commerce. This uncertainty should be reduced as much as possible, while maintaining the broad principles of the Bank Holding Company Act. Second, it is desirable to assure by statute, rather than merely by regulation, that the Bank Holding Company Act does not apply extraterritorially. It is not our intent to prohibit foreign banks located abroad from acquiring or providing assistance to non-bank enterprises abroad. Yet, that could happen under the present version of Section 8(a), subject only to the Federal Reserve Board's discretionary authority.

The statutory guidance incorporated in our proposal is not designed to change the intent of the Bank Holding Company Act as currently implemented by regulations of the Federal Reserve Board. Rather it is designed to assure certain, consistent application of that intent.

4. Mandatory Deposit Insurance

We recommend that Section 6 which requires deposit insurance for U.S. branches of foreign banks be amended (1) to make insurance optional and (2) to offer a form of deposit insurance which will not be unduly burdensome for foreign banks.

The Administration is concerned about two aspects of Section 6. While we believe that deposit insurance is desirable, foreign banks should be given the opportunity to elect coverage as are certain domestic banks. The benefits

of FDIC insurance have been clearly demonstrated, and insurance should prove attractive to foreign banks if its cost is not unduly burdensome. We believe the insurance provisions currently contained in the bill do not meet this standard. If this insurance was made optional, foreign banks would not likely elect coverage, and if made mandatory, it would create an unfair burden on foreign banks. Moreover, it could be interpreted as a departure from national treatment of established banks and thus inconsistent with certain of our treaty obligations.

Our proposed revision of Section 6, in addition to making insurance optional, would increase its attractiveness to foreign banks. Specifically, the FDIC would be given flexibility to narrowly define "domestic deposits" and thereby limit its risk and reduce the cost to foreign banks. It is contemplated that this term would include deposits of individuals who are citizens or residents of the United States and companies having an appropriate business nexus with this country. Further, the FDIC would be empowered to evaluate the additional risks of insuring a foreign bank branch in the U.S. and to adjust accordingly the requirements for any surety bond or pledge of assets.

We believe that with these changes, deposit insurance would be a viable option.

5. Citizenship Requirements

Section 2 would end the current prohibition against foreign citizens serving as directors of national banks. It would permit not more than a minority of the directors of foreign-controlled national banks to be foreign citizens. The Administration welcomes this change as a step in the right direction. Indeed, we would suggest the complete elimination of any citizenship requirement for all national banks, as has been done for Edge Act Corporations in Section 3 of this bill.

Conclusion

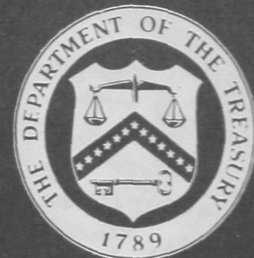
In summary, let me reiterate the Administration's belief that this bill is a good vehicle for achieving more equal treatment between foreign and domestic banks in the United States. We favor passage of the International Banking Act of 1976 with the modifications suggested in my testimony today. We will be happy to provide the Subcommittee

with legislative language incorporating those modifications.

Mr. Chairman, that concludes my prepared testimony, and I will be pleased to answer any questions that you may have.

oo OO oo

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE AT 4:00 P.M. August 27, 1976

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 $5,700 million, or thereabouts, to be issued September 9, 1976, as follows:

91-day bills (to maturity date) in the amount of $2,300 million, or thereabouts, representing an additional amount of bills dated June 10, 1976, and to mature December 9, 1976 (CUSIP No. 912793 C5 3), originally issued in the amount of $3,399 million, the additional and original bills to be freely interchangeable.

182-day bills, for $3,400 million, or thereabouts, to be dated September 9, 1976, and to mature March 10, 1977 (CUSIP No. 912793 E9 3).

The bills will be issued for cash and in exchange for Treasury bills maturing September 9, 1976, outstanding in the amount of $5,717 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,469 million. 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, September 3, 1976. 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

WS-1050

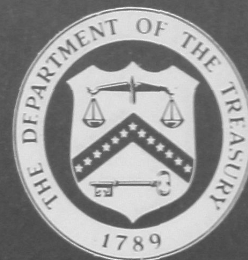
securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders 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 September 9, 1976, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 9, 1976; provided, however, that settlement for tenders submitted to the Federal Reserve Bank of San Francisco and the Los Angeles Branch must be completed at that bank or branch on September 10, 1976, and must include one day's accrued interest if settlement is made with other than Treasury bills maturing September 9, 1976. 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.

he Department of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 964-2041



CONTACT: GEORGE ROSS
(202) 964-5985

FOR IMMEDIATE RELEASE

August 30, 1976

UNITED STATES AND HUNGARY TO DISCUSS INCOME TAX TREATY

The Treasury Department announced today that representatives of the United States and Hungary will meet in Budapest during the week of September 20, 1976 for preliminary discussions of a prospective income tax treaty between the two countries.

The proposed convention would deal with such issues as the taxation of income from business ventures, investment, and employment in the other country, and would include provisions for nondiscrimination in tax treatment and for administrative cooperation in resolving income tax questions.

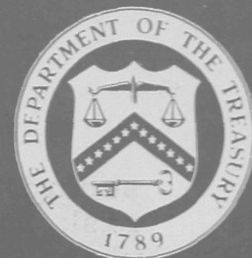
Comments are invited on the income tax aspects of doing business in Hungary. Interested persons may wish to refer to the income tax conventions recently concluded by the United States with Romania and Poland and to the model draft treaty issued by the Treasury Department on May 18, 1976. Comments should be submitted in writing to Assistant Secretary for Tax Policy Charles M. Walker, U.S. Treasury, Washington, D.C. 20220 as promptly as possible so that they may be taken into account in the September discussions.

This notice appeared in the Federal Register of August 30, 1976.

-oOo-

WS-1051

ne Department of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 964-2041



For Release on Delivery

STATEMENT OF THE HONORABLE ROBERT A. GERARD
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON
CONSUMER PROTECTION AND FINANCE
HOUSE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
AUGUST 31, 1976; 8:30 A.M.

Mr. Chairman and members of this distinguished Subcommittee:

I am pleased to have the opportunity to present the Department of the Treasury's views on H.R. 15205, the Municipal Securities Full Disclosure Act of 1976. Treasury strongly supports the principles which underlie this legislation, and with qualifications I shall discuss later in my testimony, strongly supports this bill. Moreover, I would like to commend the committee for its willingness to take up this legislation so promptly. Since the implementation period for the procedures required by this legislation is rather lengthy, time is of the essence.

The Need for This Legislation

Perhaps the oldest cliche on Wall Street is that "uncertainty is a condition markets do not tolerate well." And today, as a consequence of the changes of the past two years, uncertainty remains altogether too prevalent in the market for the securities of state and local governments.

For many years the myth persisted that tax-exempt securities, and particularly those general obligations secured by the ad valorem taxing power of the issuing jurisdiction, were risk free. This myth was reflected not only in investors' attitudes toward new issues, but also in the behavior of the secondary market.

Rarely, if ever, did price changes in the secondary market for municipal securities reflect new information concerning the financial affairs of an issuer. Rather, price changes were normally marketwide, reflecting changing perceptions of interest rate prospects or economic conditions. In terms of its price behavior, the secondary market for municipal bonds was much more similar to the government

securities market -- where, of course, there is no principal risk whatsoever -- than it was to the corporate markets, where changing risk characteristics were generally reflected in the prices of individual securities.

To be sure, the municipal market did go through the motions of distinguishing among issuers on the basis of risk. Many new issues, and virtually all of substantial size, were subject to the rating process and assigned a letter grade which attempted to define the relative risk characteristics of the security in question. But as we learned so forcefully during the New York City financial crisis, no one -- not even the rating agencies themselves -- believed that the levels of risk which were assigned relected the financial realities.

Notwithstanding the fact that the rating agencies had assigned New York City a lower rating than other issuers -- thus implying there was a greater risk of default by New York City than such other issuers -- and notwithstanding the fact that underwriters and investors in New York City securities demanded a higher return than they demanded from other, higher rated issuers -- thus reflecting allegedly different perceptions of risk -- both representatives of the rating agencies and the financial community insisted that the ultimate realization of the risk they had identified -- default -- was unthinkable and impermissible.

In short, until last year the municipal bond market in effect operated on two levels of awareness: the real and the superficial. On a superficial level, the participants behaved as if they were dealing with a real market, where prices reflected the financial condition of the issuer. But as a practical matter, the market operated on the assumption that no principal risk existed: that debt service obligations would be timely met by all issuers.

Today, there is only a single level of awareness. We know that default is a realistic possibility. Accordingly, we are forced to make real judgments as to the relative risk characteristics of particular securities. Yet there is no mechanism to insure that those judgments are made in a sound and responsible manner. It is to provide such a mechanism -- perhaps the most essential characteristic of a healthy, properly functioning, securities market -- that we need legislation such as that before the Subcommittee today.

As I shall discuss momentarily, I do not believe such legislation should mirror, or even be patterned upon, the form of regulation in the corporate securities market. I do believe, however, that we can look at the corporate market for guidance in addressing the threshold question of whether

legislation at the federal level is required. Our corporate markets are the healthiest, most competitive, most efficient, and most attractive in the world. In my view, a principal factor in the strength of these markets has been the knowledge, shared by all investors, that the information they are relying upon is current, accurate, and comparable. We need to develop a system of municipal disclosure that meets these same criteria.

The Constitutional Parameters

Since the debate regarding municipal disclosure legislation began in earnest approximately a year ago, there have been those who have argued that any such legislation at the federal level would be an unconstitutional interference with the right of sovereign state and local jurisdictions to conduct their own affairs. When companion legislation was considered by this Subcommittee's counterpart subcommittee in the Senate, the Senate requested and received legal opinions to the effect that carefully drafted municipal disclosure legislation would not violate the Constitution.

Since then, however, new impetus has been given to the constitutional argument by the Supreme Court's decision last June in *National League of Cities v. Usery*. That case held that the Federal Government could not regulate the wages a state paid its employees on the theory that the Federal Government was probihited from interfering with a state's conduct of essential state functions.

I will leave the final legal appraisal of the impact of the *Usery* decision to the practicing lawyers, and in that respect the Committee may wish to ask those who opined on this issue to Senator Williams' subcommittee to reappraise their opinions in light of *Usery*. Let's take a moment, however, to look at the question from a practical standpoint, on the principle that our Constitution must be responsive to changing needs and changing conditions.

I can accept, indeed endorse, the principle that the Federal Government should not involve itself in the internal affairs of a state. I do believe, however, it is quite a different matter when a state or local government -- even in the exercise of a governmental function so essential as borrowing money -- chooses to deal with citizens of other states.

One of the key aspects of our Constitution is its guarantee to every citizen, to every jurisdiction, of the free and unfettered right to deal with citizens of other states: the right, largely free of state or local interference,

to tap the financial resources of persons or entities located elsewhere. Looked at in this context, I would submit that it hardly befits a state to argue that the same Federal authority which guarantees it access to the financial resources of citizens of other states -- to the national financial markets -- does not permit the Federal Government to take action to insure that such access is on fair and reasonable terms.

That is a practical man's view of the constitutional principles involved. Now let me turn to the practicalities themselves.

I believe that without a uniform nationwide system of disclosure, the municipal bond market will become increasingly fragmented and regionalized. Yet, if historical trends continue, such a process of balkanization will be accompanied by continuing growth in state and local government demands for credit: larger needs, but smaller markets. At some point -- indeed we may have reached that point in some areas today -- these smaller, fragmented regional markets will simply be unable to supply the credit demanded by issuers within those markets. Then, given the absence of a national market precipitated by unwillingness to adopt uniform rules of disclosure, obtaining credit in the traditional way -- by borrowing in the public market -- will become impossible.

That in turn will inevitably lead to demands for Federal assistance in state and local financing and, of course, far higher levels of Federal intrusion than those contemplated by the current proposal for municipal disclosure. It would indeed be a Pyrrhic victory for states rights and the principles of federalism, if a broad construction of Usery resulted in virtual denial of access by state and local governments to private sources of financing.

Basic Principles of Disclosure Legislation

I suggested earlier that we should not deal with the question of municipal disclosure simply by adopting the disclosure principles employed in the corporate markets. From relatively simple beginnings in the early 1930's, the issuance of corporate securities -- through judicial mandate and regulatory action -- has come to be governed by an extremely demanding and complex set of rules which create potential pitfalls for issuers and intermediaries at every turn.

The growth in these demands represents a value judgment that the investor is entitled to have the people with whom he deals take every conceivable step -- irrespective of how

costly, how burdensome, or how inefficient -- to protect the investor from financial loss. In dealing in corporate securities, an issuer or an intermediary fails to dot every "I" and cross every "T" at its own peril. Unless the proper path is followed with absolute rigor and perfection, it is likely that the investor will be able to recoup his investment and more, irrespective of the investor's own contribution to the loss or of the existence of a causal relationship between the issuer or underwriter's conduct and the investor's loss.

While it may be satisfying or comfortable to think of such standards in moral terms, as a practical matter, their ramifications are purely financial. In the corporate arena, the need to dot "I's" and cross "T's" simply means that the entire process must be supervised by multiple teams of lawyers and accountants whose fees add considerably to the costs of the capital raising process.

While I have my doubts as to the utility of these standards in the corporate field, it is not our purpose today to reexamine them. I do, however, strongly believe that we must be acutely sensitive to the dangers inherent in transposing these practices to a system of municipal disclosure.

Simply stated, the extensive corporate disclosure requirements reflect a judgment that we should spare no expense to give the investor every last ounce of financial and legal protection. In the municipal area, where such expenses must be directly paid by taxpayers, I do not believe we can or should make a similar choice. Instead, in designing a system of municipal disclosure we should confine the burdens on issuers and underwriters to those required to produce healthy and efficient markets -- thereby reducing borrowing costs -- and resist the temptation to impose further costs for the purpose of providing extra "insurance" to investors, which will not be recouped out of lower borrowing costs, but instead must be paid by the taxpayers directly.

In the corporate field the phrase "protection of investors" has come to mean insurance for investors. In the municipal area I believe it incumbent upon us to confine the meaning of the term to what may well have been its original meaning: information.

The Desired Nature of Disclosure Legislation

The fundamental goal of disclosure legislation must be to assure that the maximum amount of relevant information is readily available, with a minimum amount of Federal intervention

and a minimum of cost. Disclosure rules and regulations should enhance the market, not interfere with the market mechanism for municipal issues. Most importantly, in order to ensure that municipal investors are able to make a concise comparative analysis of the finances of different issuers, disclosure legislation must standardize the presentation of the information being disclosed.

It is the importance of standardization which requires that a disclosure program be administered at the Federal level. We have examined carefully the voluntary disclosure approach. As the Committee knows, it has been argued that since investors and underwriters are demanding more information, if the free market were left to its own devices, the information would be provided by those issuers which need market access. We concluded, however, that precisely to assure that the free market mechanism will function smoothly with respect to municipal issues, it is necessary to insist upon mandatory disclosure of financial information by issuers entering the market. It is only by mandatory disclosure that adequate, uniform, usable information can be assured, and that its flow to the investing public can be guaranteed.

Scope

There are many municipalities which do not enter the capital markets frequently or to a heavy degree, and thus present lesser concerns to the investing public or to the proper functioning of our nation's capital markets. There are many municipal issues which have a relatively limited market. So that mandatory disclosure does not result in overkill, we favor the setting of threshold limits below which disclosure would not be required.

Once the issuers which should be subject to disclosure standards have been identified, the information required of them should be carefully specified and relatively comprehensive. Some flexibility, of course, is advisable, but in general State and local governments are entitled to clear and explicit guidance from the Congress on the kind of information they are required to disclose.

Comments on Pending Disclosure Bills

Based on the above principles, we oppose H.R. 11044. By eliminating the 1933 and 1934 Act exemptions for municipal securities, this bill would require that municipal securities undergo the same disclosure, filing and clearance and registration procedures as corporate securities. Such an approach would impose burdens and costs which outweigh the benefits derived.

As I indicated at the outset, I concur with the essential substance of H.R. 15205. The bill provides for the preparation of annual reports, including audited financial statements, by issuers of municipal securities with more than $50 million outstanding. It provides also that distribution statements be prepared prior to public offer or sale of $5 million or more of securities. And it requires that such reports and statements be reliable and comparable, as well as readily available to underwriters, dealers and investors. Finally, it encourages State oversight by providing for exemptions from the distribution statement requirement where a State authority has approved the offer and sale of the issue.

From our standpoint, perhaps the most important feature of the legislation is the requirement of an annual independent audit. Not only does this requirement itself satisfy two of the three fundamental criteria of disclosure legislation -- insuring the accuracy and the comparability of the financial information provided -- but it also provides the issuer with an important management tool.

As we in the Treasury have become involved with the activities and the structure of particular local governments, we have come to recognize the relationship between sound supervisory mechanisms and the care with which employees handle the government's finances. If the public employee knows that every action related to the fiscal affairs of his employer will be subject to review on an annual basis by an independent party, he is far more likely to act in a manner consistent with the employer's best financial interests. Thus, in addition to meeting the fundamental need for insuring the accuracy and comparability of reported financial information, the independent audit can aid the issuer in its internal financial management as well.

In short, we believe the Chairman's bill strikes an appropriate balance: requiring disclosure of as much information as is necessary to allow the market to function properly, without burdening our states and cities with requirements that impose unnecessary costs.

However, we would recommend several changes in the bill. First, I am concerned about the authority conferred upon the Commission by subsection (d) of Section 13A. To the extent this provision reflects the view that, in light of inflation, it may be appropriate at some future date to allow the Commission to adjust upward the minimum filing requirements, such intent could be more clearly expressed by substituting the word "increase" for the word "change" on line 5.

If, on the other hand, the provision contemplates a possible downward adjustment of the minimum limits, I believe the provision constitutes an inappropriate delegation of authority to the Commission. It is important to keep in mind that this legislation contemplates a degree of Federal involvement in the affairs of sovereign political units. Accordingly, it is our strong belief that any change which materially increases the scope of the legislation, or the burden on entities initially subject to the legislation, must receive the review and approval of the Congress in the form of new legislation.

This leads directly to a second area of concern. While we recognize the necessity for some rulemaking authority in the Commission to implement the statutory directives, we think the legislation, as currently drafted, goes much too far. As I indicated earlier, while the protection of investors is, and must be, a consideration, it is not in my view a consideration of such paramount importance as might be the case on the corporate side. The grant of discretion to the Commission to expand the type of information required must be carefully circumscribed and should recognize expressly the different competing considerations which exist in the municipal securities area.

Finally, there is the complex and troublesome question of liability. While the clamor over this issue has subsided somewhat in the wake of the Hochfelder decision and the return of relative calm to our municipal markets, I believe there remains a risk that the benefits of disclosure legislation -- healthier markets and net reduction in borrowing costs -- may be impaired by a failure to address the liability issue.

It is tempting to suggest deferring this question until a more general reappraisal of the private action under the securities laws is made. But given the emotional and financial interests inherent in any such general reappraisal, I believe it more desirable to take the opportunity presented by our consideration of comprehensive new legislation in the municipal field to develop principles applicable to this market alone.

In assessing the question of liability, it seems to me we are again placed in the posture of imposing a balancing test: do the benefits to the marketplace outweigh the costs incurred by imposing full liability on dealers and underwriters? Costs, it again must be stressed, which will be directly paid by the taxpayers of the issuing jurisdiction. To put it more bluntly, is requiring underwriters and dealers to be financially responsible for the accuracy and the completeness of an issuer's disclosures worth the price taxpayers will pay for imposing such a responsibility?

It is important to note that it is only this narrow question that we are considering. While the Committee may want to confirm my judgment with representatives of the dealer and the underwriter community, I assume that no one is suggesting that an underwriter or a dealer should not be liable for its own misconduct: for example, for concealing actual knowledge of false disclosures or material nondisclosures or for providing information to investors, other than that provided by the issuer, which is false or misleading.

What we must ask is whether an underwriter should be responsible for conducting an independent inquiry into the fiscal and financial affairs of an issuer to confirm that the issuer's disclosures are accurate.

My own judgment is in the negative. I believe the costs of such an independent inquiry far outweigh whatever benefits, if any, can be derived. And while there may be some superficial appeal to issuers in the prospect of sharing their exposure with other parties, in the final analysis no real sharing takes place. The issuers pay, and pay dearly, for conferring upon investors the right to seek recourse against the financial intermediaries they have retained.

Mr. Chairman, let me briefly summarize the principles -- many of which are already embodied in legislation before us -- which I believe must guide us as we move toward enactment:

-- First, the legislation itself must set forth with detail and clarity the specific items and methods of disclosure required. As little as possible must be left to subsequent regulatory interpretation.

-- Second, causes of action against an issuer must be strictly based on violations of the above requirements and an issuer's exposure limited to actual, out-of-pocket losses.

-- Third, the legislation should recognize the principle that potential underwriters' liability will be directly reflected in the issuer's borrowing costs. I personally believe that an underwriter should be relieved by statute of any liability with respect to disclosures by an issuer unless (1) the underwriter conceals actual knowledge of false disclosures or material non-disclosures or (2) it provides information to investors other than that provided by the issuer which is false or materially misleading.

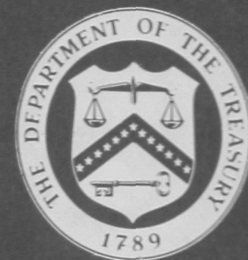
* * *

I am sure I need not emphasize for the Committee that a decision to support legislation involving a greater Federal

role in the activities of a market is not one that is taken lightly by a representative of this Department and this Administration. But as strong advocates of free markets, we recognize that markets function best when the best information is available. And in our view, achieving that objective requires prompt enactment of the legislation before us today.

oOo

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE August 30, 1976

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,500 million of 13-week Treasury bills and for $3,600 million of 26-week Treasury bills, both series to be issued on September 2, 1976, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing December 2, 1976			26-week bills maturing March 3, 1977		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.721	5.060%	5.20%	97.305	5.331%	5.55%
Low	98.710	5.103%	5.24%	97.287	5.366%	5.59%
Average	98.713	5.091%	5.23%	97.295	5.351%	5.58%

Tenders at the low price for the 13-week bills were allotted 74%.
Tenders at the low price for the 26-week bills were allotted 39%.

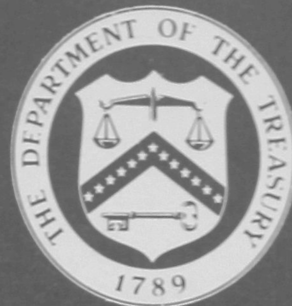
TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 38,600,000	$ 22,600,000	$ 47,780,000	$ 27,780,000
New York	3,270,695,000	2,022,140,000	4,134,260,000	2,919,860,000
Philadelphia	21,380,000	21,380,000	6,900,000	6,900,000
Cleveland	31,765,000	31,765,000	233,720,000	52,620,000
Richmond	26,955,000	26,955,000	35,235,000	10,735,000
Atlanta	26,120,000	26,120,000	13,135,000	13,135,000
Chicago	277,360,000	140,545,000	693,570,000	391,470,000
St. Louis	45,455,000	30,455,000	42,135,000	27,135,000
Minneapolis	23,740,000	23,740,000	32,570,000	17,570,000
Kansas City	40,830,000	37,280,000	22,725,000	19,725,000
Dallas	31,860,000	26,860,000	22,110,000	18,110,000
San Francisco	312,960,000	90,400,000	231,490,000	96,490,000
TOTALS	$4,147,720,000	$2,500,240,000 a/	$5,515,630,000	$3,601,530,000 b/

a/ Includes $370,315,000 noncompetitive tenders from the public.
b/ Includes $160,150,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

WS-1053

Department of the TREASURY NEWS
INGTON, D.C. 20220 TELEPHONE 964-2041



ADDRESS BY THE HONORABLE
WILLIAM E. SIMON
SECRETARY OF THE TREASURY
OIC'S OF AMERICA, INC., TWELFTH ANNUAL CONVOCATION
PHILADELPHIA, PENNA.
SEPTEMBER 1, 1976

Thank you Reverend Sullivan, ladies and gentlemen. On behalf of all the Treasury Department Executives who have worked to make our Department a demonstration project on how to cooperate with maximum effectiveness as partners with OIC, I am honored to accept this most distinguished award. At the same time, I enthusiastically pledge to you the continued support of the Ford administration in our combined effort to further the objectives of OIC.

The goals of OIC are great goals. In fact, they are the very source of our nation's strength. We strongly support OIC's aim to build America by helping people to get jobs so they can be independent, reliable, productive citizens. OIC wants everybody to be somebody. It rejects the notion of the welfare state, but strives to help people to help themselves. We agree. That doesn't mean there is no place for compassion. On the contrary, our government and each one of us have a very important responsibility to help those who cannot help themselves. but for the vast majority of our citizens who are capable of becoming self-supporting, OIC points the way toward the only permanent solution.

We are proud to stand shoulder to shoulder with your organization. For during the past decade, you have convincingly confirmed that the best way to eliminate poverty is to make our great free enterprise system work for the benefit of poor people. No other anti-poverty effort can match the excellence of your record, and I am delighted to congratulate you on your success.

Much of the credit for this success should go to your outstanding leader, Reverend Leon Sullivan. I'd like simply

to say today that Reverend Sullivan is one of the finest Americans I have ever known. He says he is living as God wants him to. I believe him. For after beginning 12 years ago with no more than an abandoned jail house in a high-crime section of North Philadelphia, just look at what he has accomplished.

Between 1964 and 1975 the OIC program has trained 353,000 men and women, and placed 250,000 in jobs with an impressive 85% retention rate. The OIC graduates earned nearly $5 billion during the same period, paid $600 million in Federal taxes and saved taxpayers $1.5 billion in potential welfare payments. Of even greater personal value are the economic freedom and upward mobility now enjoyed by these OIC graduates.

In his quest to significantly improve the economic existence of lower income citizens, Reverend Sullivan has built factories, housing projects, neighborhood rehabilitation programs, and rural and urban economic developments. He has combined capital formation with cooperative planning to produce community capital from earned savings of thousands of Americans who together own shopping centers and other income-producing developments. Above all, he has demonstrated that our free enterprise system is not only there, but waiting to be tapped for the benefit of every man, woman and child in America, no matter what their color, creed, or national origin. And that, ladies and gentlemen, is what both Reverend Sullivan and this magnificent country of ours are all about.

We Americans are a compassionate people. And my experience in Washington has convinced me that almost every man and woman in a position of high public trust cares deeply about the well-being of our people. The central question today should not be who cares the most, but rather how best we can broaden prosperity and reduce human hardship without sacrificing our freedom, or destroying the most successful economic system that man has ever known.

I share Reverend Sullivan's conviction that the answer to this question lies with free enterprise. It's our strong free enterprise system that provides the government with the revenue to do all the things we want it to do to help people in need. But above all, free enterprise provides opportunity -- opportunity for a person to make it, to be somebody, to have character, dignity, and to be self-supporting and free rather than dependent upon a capricious government. That's what free enterprise means, and that's what OIC means!

Unfortunately, there are those who would ignore the OIC lesson and who contend instead, that our economic problems stem from the failure of the principles of free enterprise. I vehemently disagree. Our principles have not failed at all; no, it is we who have failed to live up to them. Many recent examples emphatically prove that no city or country can hope to remain economically viable if it consistently lives beyond its means, and allows the growth of its public sector to overwhelm its private sector. Nevertheless, the United States now risks committing exactly this same error. For too many years politicians in this country have misled our electorate into thinking that the Federal government can immediately identify, solve and pay for every problem of society.

Consequently, since 1962, our Federal budget has exploded from $100 billion to a figure that will certainly top $400 billion in 1977. The government is now growing much faster than our ability or our willingness to pay for it.

We have had deficits in 16 of the past 17 years, and we are currently going deeper into debt at the rate of a billion dollars every week.

In the past ten years, the U.S. Treasury has borrowed half a trillion dollars in the private capital markets. That's money that was swallowed up in the Washington bureaucracy that could and should have been invested to create productive jobs in our dynamic private sector. And such heavy government deficit spending and subsequent borrowing only aggravates inflation and increases interest rates, which in turn adversely affect everyone from the businessman interested in expanding his plant to create jobs, to the married couple who dream of someday being able to buy a home.

Added to that, is the weight of excess government regulations which now threaten to overwhelm many small businesses. Government now controls over 10% of everything we produce in the economy and indirectly controls most of the rest. Private enterprise must now devote 130 million man-hours a year just to fill out all the necessary Federal forms. That translates into a cost to consumers of $125 billion, which is the equivalent of $2,000 for every American family each year.

The Federal government is today the nation's single biggest employer, consumer, borrower, and the biggest source of inflation in the United States economy. And it was

precisely this inflation that was the underlying cause of the worst recession our country has experienced in a generation.

The economic history of the past ten years might best be described by that old adage, "The road to Hell is paved with good intentions." In effect, the spiraling inflation caused by our past excessive fiscal and monetary policies has hurt the very people those policies were intended to help the most: the poor, the handicapped, and those living on fixed incomes. The issues involved here are by no means narrowly economic. They concern fundamental principles of equity and social stability. The trouble with encouraging government spending at the expense of strengthening the private sector is that however good the intentions which underlie the governmental growth, those intentions are not achieved; that instead, the growth in government spending makes low-income people worse off, undermines social cohesion, and threatens the very foundation of a free society.

The outstanding fact is that in every country in which government spending reaches a dominating level there has been a tendency to move toward economic instability, toward minority government, and toward a threat to a free society. We must never forget that there is an inextricable relationship between our economic freedom and our social and political freedom.

Many of the self-proclaimed compassionate people say our Administration is callous and insensitive to be against their proposals for massive new spending, huge deficits, an inflated money supply, and more government control over our economy and our lives. I am sorry, but I must respectfully disagree.

Before we subject our economy to such crippling and possibly fatal shocks, I think it's about time we look at some of the things that are right about America. What are today's poverty figures? In the last 15 years, the number of those living under the poverty level has been sharply reduced to 10%. Of course that number is still far too high; it's clearly unacceptable. But paradoxically it is also one of the lowest in the world. Why? Because of the unparalleled success of our free enterprise system. The plain truth is that no other country -- no other system -- either now or ever before in history, has achieved such a broad degree of economic affluence and personal freedom for its people. And we can do even better. We <u>can</u> create new opportunities and reach that last 10%, and we <u>are</u> committed to that goal. But the essential point is, we <u>will</u> never reach that goal by destroying private enterprise, the very source of our present abundance and our hopes for a better future.

Naturally, the government has a responsibility to help those people who cannot help themselves. But while we're doing that, we must also assist OIC-type solutions, so that government is indeed helping to provide a permanent answer.

One of the most critical lessons of the last ten years is that there is no such thing as true compassion without responsibility. To show true compassion we must take into account not only the short-term effects of our actions, but the long-term as well. The suggestions that we simply spend and spend regardless of the value of programs are precisely those which have, over the years, hurt the poor and the disadvantaged the most. It will be a grave injustice to the people of this nation, and especially those in need, to continue down the same path when we can clearly see from recent history that the short-term pleasure and promises of prosperity will be followed by even greater hardship and suffering.

In effect, what we have seen happen is that a cruel hoax has been played upon the poorest people of this country. Year after year, and still today, we are told the only way to fight poverty is to devise new and ever more massive governmental programs. And the American people have responded with unquestionable generosity. Since 1960 this nation has spent over one trillion dollars on social programs to support people and communities that needed help. So it is fair to ask, if the commitment was there, why was it not followed by a new prosperity? Quite simply because unlike OIC, which adheres to the principles of free enterprise, effectively attacks poverty at its source and creates opportunity at the local level, a great many of our massive Federal programs today do little more than create bigger and bigger government. And that just means more spending, more taxation, more regulation, more inflation and eventually more unemployment and a loss of the very opportunities that have been promised.

Fortunately, many leaders are starting to speak out against this monumental ripoff that is always so appealingly promoted in the name of compassion. Thomas Sowell,* a black, who is a fellow at the Center for Advanced Study in the Behavioral Sciences at Stanford California, and the author of Race and Economics, points out that championing the disadvantaged is not only an inspiration, but an occupation. "To be blunt, the poor are a gold mine," he says. He points

---

* "A Black Conservative Dissents," N.Y. Times Sunday Magazine, August 8, 1976

out that by the time they are studied, advised, administered, and experimented with, the poor have helped many a middle-class liberal to achieve affluence with government money. The total amount of money the government spends on its "anti-poverty" efforts is three times what would be required to lift every man, woman and child in America above the official poverty line by simply sending money to the poor. But Sowell notes that a good deal of the taxpayers' money never reaches the poor. It is absorbed by the administrators, the planners, the researchers, the consultants, the staffers, in other words that entire army of bureaucrats which has managed to achieve its affluence by becoming caretakers of the poor. It is no accident that the highest income counties in the United States are in the suburbs of Washington, D.C. Poverty has created much of that affluence. But this nonproductive army does not just harm the poor, it adversely affects every American. And it is obvious that this philosophy of advocating greater government control over both our economy and our lives clearly contradicts the fundamental principles that have given this country the greatest prosperity and highest standard of living and, most importantly, the greatest freedom ever known to man.

I submit to you that this question, of whether our people -- poor and rich alike -- can be trusted to run their own lives, or whether government must run their lives for them, is the most critical issue we face in this year's presidential election.

I ask that you compare the positions of the two parties on this question. Less than a month ago, I testified to the Platform Committee of the Republican Party that OIC provides the perfect example of the type of rifle-shot approach to job training and underprivileged minorities that our party espouses. Leon understands these problems. And he knows that the only permanent answer is the private sector approach helping people to achieve upward mobility, and to gain control over their own future.

And his goal of free lives, individual lives and productive lives can only be built on capital investment, not on the red ink and the printing press of the government. If we are going to create the kind of jobs that will keep people permanently employed, that will meet the needs of a growing labor force, and that will reduce our inflation by expanding our output of goods and services, then we must equip our workers with new and efficient plant, machinery and tools.

Savings are the source of this needed capital. But savings are currently being drained by excessive government deficits. Resources absorbed by government for its spending today cannot simultaneously be invested in expanded plant and machinery to employ more people tomorrow. We cannot have both bigger government and a healthy expanding private sector as

our opponents are trying to make the American people believe. Government doesn't create wealth -- people do. We cannot continue to transfer each year an increasing percentage of our national wealth from the most productive sector to the least productive sector of our economy without endangering the economic future, indeed the economic survival of our children.

The American people must realize that government can only grow stronger by making private enterprise weaker. Every dollar spent by the government comes from the pocket of a working American. If the government wants to spend more, then you and I will spend less. If the government wants to employ more people, then private enterprise must employ fewer people. And such an emphasis on bureaucratic growth inevitably leads to a decline in the production of goods and services, a decline in the value of people's income, and an increase in the rate of inflation, which in turn paves the way for a new recession and even higher unemployment.

Why is there such an urge to legislate these harmful policies that so clearly make all people suffer, not just the poor? Professor Milton Friedman provides an explanation which he entitles the "visible vs. the invisible" effects of government measures:

"People hired by government know who is their benefactor. People who lose their jobs, or fail to get them because of the government's programs do not know that that is the source of their problem. The good effects are visible, the bad effects are invisible. The good effects generate votes. The bad effects generate discontent which is as likely to be directed at private business as at the government.

"The great political challenge is to overcome this bias, which has been taking us down the slippery slope to even bigger government and to the destruction of a free society."*

Sincere compassion for the unemployed dictates that we heed economic reality, that we work for a <u>permanent</u> solution, and that we avoid those bureaucratic policies that only lead to a bigger poverty trap. Free enterprise works! Just look at what you've accomplished at OIC. And there's no reason why others cannot benefit from your success. Ladies and gentlemen, we <u>can</u> wage a real war on poverty. And we can <u>win</u> that war, if <u>we</u> start creating more jobs in the private sector, and stop creating more jobs for bureaucrats. And that, I might add, is exactly what President Ford wants to do.

And when I talk about the wonder of private enterprise and what it can do for each of us, let me explain what I mean. The private sector produces the food we eat, the goods we use,

---

* "Humphrey-Hawkins," <u>Newsweek</u> Magazine, August 2, 1976.

the dwellings we live in.

-- It is the source of five out of every six jobs in America, and it provides directly and indirectly almost all the resources for the rest of the jobs in our all-too-rapidly expanding public sector.

-- It is the foundation for defense security for ourselves and most of the free world.

-- It has been, and will continue to be, the difference between life and death for countless undernourished people around the globe.

It is the productive base that pays for government spending to aid the elderly, the jobless, the poor, the dependent, and the disabled. Indeed, far from being the inhuman monster caricature painted by so many political demagogues, the American private sector is in reality the mightiest engine for social progress and individual improvement ever created. And that's why we're convinced that the stronger we can make that engine, the more prosperous will be all our people.

This is what government's true role is, and that's what our Administration is fighting for. We have to avoid making false promises and just throwing money at problems. We want to see the creation of real jobs, productive jobs, and lasting jobs -- jobs that build character, provide upward mobility and offer an even better future.

And yet today, there are still those who cannot resist making more promises -- promises that certainly sound appealing, but that in reality amount to nothing more than the already discredited policies of runaway spending and unending deficits. We've already seen where those policies lead. They only lead to more government, more bureaucracy, more inflation, more unemployment, and thus still more broken promises especially to those who most need help. It's an insidious process because the resulting economic instability further undermines confidence which in turn provokes new cries for still more intervention.

And what will all these promised programs offered by the proponents of big government actually cost the American people? If enacted, the price tag could exceed $200 billion -- that's $1,000 for every man, woman and child in this country. The average American would have to work for half the year just to support the Washington bureaucracy, and only then could he start to support himself and his family. Our people would witness a rapid erosion of an important part of their economic freedom -- the right to keep more of the money they earn to spend as they please. This is no guide to a new prosperity built upon sustained non-inflationary growth. It's

nothing more than a blueprint for economic disaster.

Ladies and gentlemen, the question is no longer who does or does not care. We all care very much. The only valid question this year is who are we going to promote -- individuals, with emphasis on those who need help, or government? We cannot do both. That is the true, crucial decision behind all the rhetoric and personalities of this election year. And the choice we make will affect not only our own futures, and our children's, but the future of our country itself as America embarks on its third century as the hope and inspiration of free people everywhere.

I hope that come Election Day a majority of you and all Americans will vote not for a bigger Federal bureaucracy, but for more individual opportunity. And if you do, perhaps we might live to see the day of which Reverend Sullivan dreams when he says:

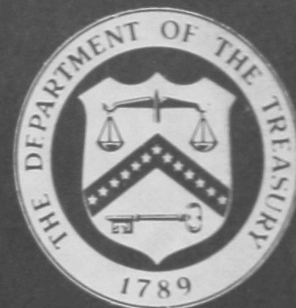
"Every citizen ought to have the self-respect and the pride which comes from knowing that he has a contribution to make and that he receives a wage or an economic reward which enables him to solve his own and his family's economic problems, meet their social and educational needs, pay taxes and support a better quality of life in his or her community."

Let us join together to make that America a living reality.

Thank you very much.

o0o

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE August 31, 1976

RESULTS OF AUCTION OF 4-YEAR TREASURY NOTES

The Treasury has accepted $2,002 million of $5,423 million of tenders received from the public for the 4-year notes, Series E-1980, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	6.90% 1/
Highest yield	6.94%
Average yield	6.93%

The interest rate on the notes will be 6-7/8%. At the 6-7/8% rate, the above yields result in the following prices:

Low-yield price	99.903
High-yield price	99.764
Average-yield price	99.799

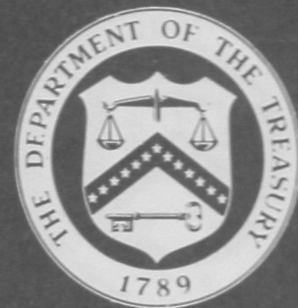
The $2,002 million of accepted tenders includes 72% of amount of notes bid for at the highest yield and $534 million of noncompetitive tenders accepted at the average yield.

In addition, $120 million of tenders were accepted at the average-yield price from Federal Reserve Banks as agents for foreign and international monetary authorities.

1/ Excepting 1 tender of $29,000

WS-1055

e Department of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE AUGUST 31, 1976

TREASURY DEPARTMENT HONORED AT BICENTENNIAL
"3RD CENTURY AMERICA" EXPOSITION IN FLORIDA

Under Secretary of the Treasury Jerry Thomas will be principal spokesman at day-long activities celebrating "Treasury Day" on September 2, 1976, at the Bicentennial Exposition on Science and Technology at the Kennedy Space Center, Florida.

Treasury Day at the exposition marks the 187th anniversary of the founding of Treasury, the second oldest Department in the Federal Government. Under Secretary Thomas will address an anticipated crowd of 10,000 at the Space Center, to start a program of special events which will include the Thunderbirds precision flying show, motion pictures, souvenir Bicentennial medals that visitors may strike for themselves on a Bureau of the Mint coin press, sale of Bicentennial motif Savings Bonds, and exhibits covering various Treasury activities.

A special series of demonstrations has been scheduled for Treasury Day visitors by the U.S. Customs Service's dog, Max, a Brittany Spaniel, and his trainer Mike McGee. Max is an expert at sniffing out narcotics in packages and automobiles, and he loves to perform for an audience. Max will demonstrate his special talents in a show in the Theatre Dome, as well as outside both before and after the Thunderbird performance.

The Bicentennial exposition at the Kennedy Space Center is the only government-sponsored exposition during the Bicentennial year, and has been open to the public since May 30. The Treasury main exhibit, which has welcomed visitors from that date and will continue through the exposition's closing on September 7, is located in the Launch Control Center lobby and in the Theatre Dome.

"3rd Century America" is the theme of the exposition, emphasizing prospects for a better life in 1976 and for the next 100 years thereafter. Treasury's exhibit has reflected that theme all summer in regular showings of the films, "Keys to the Treasury," "The Granite Lady" (story of the restoration of the San Francisco Mint), "An American Partnership" (story of the public debt), and "Money Talks."

(over)

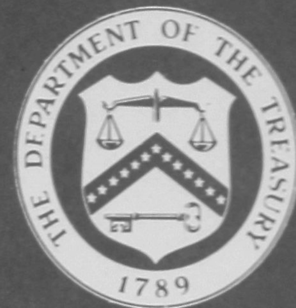
In addition, Treasury's exhibit has offered film strips prepared by its Bureau of Alcohol, Tobacco and Firearms and by the Comptroller of the Currency; stamps commemorating past achievements in science and technology, the $2 bill, and the Centennial Bond, as well as offering for sale a specially designed souvenir card prepared by the Bureau of Engraving and Printing; a Bureau of the Mint exhibit of machinery that makes coins and dies, and sale of the 40 percent silver Bicentennial proof coin and uncirculated coin sets.

The Treasury exposition exhibit also includes a Savings Bonds display of colorful cubes relating to the public debt and illustrating how the Savings Bonds program has financed America's economic development and contributed to the space program; and a special U.S. Customs exhibit on the history and mission of Customs.

Available free to visitors will be Treasury's 12-page booklet on America's free enterprise system, "The Engine That Built America."

oOo

he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041



CONTACT: George G. Ross
202-964-5985

FOR IMMEDIATE RELEASE

August 31, 1976

PROTOCOL
to the
UNITED STATES and UNITED KINGDOM
INCOME TAX TREATY

The United States Treasury Department today released the text of a Protocol to the new income tax treaty between the United States and the United Kingdom. The treaty was signed by both governments on December 31, 1975 and was amended by Notes exchanged on April 13, 1976. The treaty, as amended, has been submitted to the United Kingdom House of Commons for approval and to the United States Senate for its advice and consent to ratification. A copy of the text of the Protocol is attached.

The provisions of the new treaty were outlined in Treasury Press Releases issued on November 4, 1975, January 6, 1976 and May 3, 1976. Those provisions of the treaty amended by this Protocol are paragraphs (2) and (4) of Article 1 (Personal Scope), Article 8 (Shipping and Air Transport), paragraph (1)(c) of Article 23 (Elimination of Double Taxation) and paragraph (4) of Article 24 (Non-discrimination).

# # #

WS-1057

PROTOCOL

AMENDING THE CONVENTION BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME AND CAPITAL GAINS SIGNED AT LONDON ON 31 DECEMBER 1975, AS AMENDED BY NOTES EXCHANGED AT LONDON ON 13 APRIL 1976

The Government of the United States of America and the Government of the United Kingdom of Great Britain and Northern Ireland;

Desiring to conclude a Protocol to amend the Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital Gains, signed at London on 31 December 1975, as amended by Notes exchanged at London on 13 April 1976 (hereinafter referred to as "the Convention");

Have agreed as follows:

ARTICLE I

Paragraphs (2) and (4) of Article 1 (Personal Scope) of the Convention shall be deleted and replaced by the following:

"(2) A corporation which is both a resident of the United Kingdom within the meaning of paragraph (1)(a)(ii) of Article 4 (Fiscal Residence), and a resident of the United States within the meaning of paragraph (1)(b)(ii) of Article 4 shall not be entitled to claim any relief or exemption from tax provided by this Convention except that such corporation may claim the benefits of paragraph (2) of Article 8 (Shipping and Air Transport), of Article 23 (Elimination of Double Taxation) with respect to paragraph (1)(c) thereof and the petroleum revenue tax referred to in paragraph (2)(b) of Article 2 (Taxes Covered), of Article 24 (Non-discrimination) and of Article 28 (Entry into Force) and the provisions of paragraph (7) of Article 11 (Interest) shall apply to it.

"(4) Nothing in paragraph (3) of this Article shall affect the application by a Contracting State of:

(a) Paragraph (2) of Article 8 (Shipping and Air Transport), and Articles 9 (Associated Enterprises), 23 (Elimination of Double Taxation), 24 (Non-discrimination), and 25 (Mutual Agreement Procedure); and

(b) Articles 19 (Government Service), 20 (Teachers), 21 (Students and Trainees), and 27 (Effect on Diplomatic and Consular Officials and Domestic Laws), with respect to individuals who are neither nationals of, nor have immigrant status in, that State."

ARTICLE II

Article 8 (Shipping and Air Transport) of the Convention shall be deleted and replaced by the following:

"ARTICLE 8

Shipping and Air Transport

(1) Profits derived by an enterprise of a Contracting State from the operation of ships or aircraft in international traffic shall be taxable only in that State.

(2) Notwithstanding any other provision of this Convention, profits which a national of the United States not resident in the United Kingdom or a United States corporation derives from operating ships documented or aircraft registered under the laws of the United States shall be exempt from United Kingdom tax.

(3) For the purpose of this Article, profits from the operation of ships or aircraft include profits derived from the rental on a bareboat basis of ships or aircraft if such rental income is incidental to other income described in paragraph (1) of this Article.

(4) Notwithstanding the provisions of Article 7 (Business Profits), profits of an enterprise of a Contracting State from the use, maintenance or rental of containers (including trailers and related equipment for the transport of containers) used for the transport of goods or merchandise shall be taxable only in that State, except where such containers are used for the transport of goods or merchandise solely between places within the other Contracting State.

(5) The provisions of this Article shall apply also to profits derived by an enterprise of a Contracting State from participation in a pool, a joint business or an international operating agency.

(6) Gains derived by an enterprise of a Contracting State from the alienation of ships, aircraft or containers owned and operated by the enterprise, the income from which is taxable only in that State, shall be taxed only in that State."

ARTICLE III

Sub-paragraph (c) of paragraph (1) of Article 23 (Elimination of Double Taxation) of the Convention shall be deleted and replaced by the following:

"(c) that amount of tax credit referred to in paragraph (2)(a)(i) of Article 10 (Dividends) which is not paid to the United States corporation but to which an individual resident in the United Kingdom would have been entitled had he received the dividend shall be treated as an income tax imposed on the corporation paying the dividend."

ARTICLE IV

Paragraph (4) of Article 24 (Non-discrimination) of the Convention shall be deleted and replaced by the following:

> "(4) Paragraph (3) shall not apply to any interest, royalties, or other disbursements to which the provisions of Article 9 (Associated Enterprises), paragraphs (5) and (7) of Article 11 (Interest) or paragraph (5) of Article 12 (Royalties) apply."

ARTICLE V

(1) This Protocol shall be ratified and the instruments of ratification shall be exchanged at Washington as soon as possible.

(2) This Protocol shall enter into force immediately after the expiration of thirty days following the date on which the instruments of ratification are exchanged and shall thereupon have effect in accordance with Article 28 of the Convention.

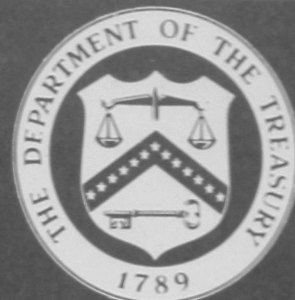
In witness whereof the undersigned, duly authorized thereto by their respective Governments, have signed this Protocol.

Done in duplicate at London this day of 1976.

For the Government of the United Kingdom of Great Britain and Northern Ireland:

For the Government of the United States of America:

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE August 31, 1976

Treasury Secretary William E. Simon issued the following statement today in response to Governor Carter's speech before the AFL-CIO in Washington:

"I am personally appalled by Jimmy Carter's latest suggestions, made today in Washington, that the White House should assume much greater power over the Federal Reserve Board.

"While Mr. Carter's words are typically vague and general, they represent nothing less than a thinly disguised plan to politicize the Nation's monetary system.

"Fortunately, most Americans have learned the lessons of the 1960s -- that easy money and big spending lead not to prosperity and lower interest rates, as Mr. Carter suggests, but to ruinous inflation and high unemployment.

"The independence of the Federal Reserve System from political influence is one of our last remaining checks against the relentless inflationary instincts of many politicians in Congress. The moment the politicians get their hands on the levers of the money supply is the moment that we put the United States on the road to economic disaster.

"To keep the dollar in a sound and secure position, we have but one choice: to lock the politicians out."

o0o

WS-1058

OTA Papers

Estimation of a Simultaneous System of Equations When the Sample is Undersized

K.R. Kadiyala
Purdue University

James R. Nunns
U.S. Treasury Department

OTA Paper 14 August 1976

Department of the Treasury

Assistant Secretary for Tax Policy
Office of Tax Analysis

Office of Tax Analysis
U.S. Treasury Department
Washington, D.C. 20220
Issued: September 1976

ESTIMATION OF A SIMULTANEOUS SYSTEM OF EQUATIONS WHEN THE SAMPLE IS UNDERSIZED

K.R. Kadiyala
Purdue University

James R. Nunns
U.S. Treasury Department

OTA Paper 14 August 1976

OTA Papers are circulated so that the preliminary findings of tax research conducted by Staff members and others associated with the Office of Tax Analysis may reach a wider audience. The views expressed are those of the author, and do not reflect Treasury policy. Comments are invited, but OTA Papers should not be quoted without permission from the author.

TABLE OF CONTENTS

		page
I.	Introduction	1
II.	The Problem	2
III.	Alternative Approaches to the Problem	3
IV.	A Proposed Class of Estimators	6
V.	Estimation of Klein's Model I - An Illustration . . .	8

I. INTRODUCTION

In most large and many medium-sized econometric models, the number of predetermined variables exceeds the number of observations on each variable. Estimation procedures such as two-stage least squares and other k-class (k>0) procedures, as well as three-stage least squares and certain other full-information procedures are therefore inapplicable. In this paper, a class of modified two-stage least squares estimators is derived which exhibits several desirable properties in comparison to alternative estimators which have been proposed for models with undersized samples.

II. THE PROBLEM

The jth structural equation of a linear simultaneous equation system may be written as:

$$y_j = Y_j\gamma_j + X_j\beta_j + \xi_j \tag{1}$$

or more conveniently as:

$$y_j = Z_j\delta_j + \xi_j \tag{2}$$

where $Z_j = (Y_j \vdots X_j)$, $\delta_j' = (\gamma_j' \vdots \beta_j')$, y_j is the nx1 vector of observations on the jth dependent variable, Y_j is the nxL_j matrix of observations on the

jointly dependent variables which are explanatory in the jth equation, X_j is the nxK_j matrix of observations on the predetermined variables entering the jth equation, γ_j and β_j are parameter vectors to be estimated, and ξ_j is an nx1 vector of disturbances. The system contains L jointly dependent variables, and K ($>K_j$) predetermined variables; X is the nxK matrix of observations on all predetermined variables in the system. It is assumed throughout the paper that the predetermined variables are "fixed", ξ_j has a zero mean and covariance matrix $\sigma_{jj}I$ ($0 < \sigma_{jj} < \infty$), the jth equation is identified, and the rank of $X'Z_j$ is L_j+K_j which requires $\min(K, n) \geq L_j+K_j$.

Multiplying equation (2) by X' gives:

$$X'y_j = X'Z_j\delta_j + X'\xi_j \quad . \tag{3}$$

The transformed disturbance vector $X'\xi_j$ has mean zero and covariance matrix $\sigma_{jj}X'X$. Assuming X has rank K (which requires $n \geq K$), the two-stage least squares estimator of δ_j, $\hat{\delta}_j$, is derived from (3) by applying Aitken's theorem, giving:

$$\hat{\delta}_j = (Z_j'EZ_j)^{-1}Z_j'Ey_j \tag{4}$$

where $E = X(X'X)^{-1}X'$. When the rank of X is less than K, X'X is singular and the two-stage least squares estimator (as well as all other estimators which depend on the inverse of X'X) fails to exist. The rank of X is always less than K when $n < K$, i.e., when the sample is undersized.

III. ALTERNATIVE APPROACHES TO THE PROBLEM

A number of estimation procedures have been proposed that do not rely on the inverse of $X'X$, and are therefore at least potentially applicable when the sample is undersized. These procedures will only be discussed briefly here; more extensive discussions may be found in Theil [9] and Dutta and Lyttkens [1]. Our primary interest is in those procedures which are truly "limited-information" - requiring only specification of the jth equation and the list of predetermined variables occurring in the system. Other procedures, while usually more efficient, have the undesirable property of requiring a more detailed knowledge of the entire system. Estimation of the jth equation is therefore sensitive to misspecification in the remainder of the system.

Among the limited information procedures, the following three are widely known and illustrate the difficulties of estimation when the sample is undersized.

1. Kloek and Mennes [3] suggested replacing X with $T = (X_j \vdots P)$ where P is a matrix of principal components of some linear combination of some or all of the columns of X. This leads to the estimator:

$$\delta_j^* = (Z_j'T(T'T)^{-1}T'Z_j')^{-1}Z_j'T(T'T)^{-1}T'y_j \quad . \tag{5}$$

A major disadvantage of this procedure is that the size of P, the columns of X from which the full set of principal components is derived, and the normalization chosen are all arbitrary. Thus, δ_j^* may be highly sensitive

to the P matrix used in its estimation. A lesser disadvantage is that the procedure requires considerably greater computational effort than the two-stage least squares procedure. Further, as is the case with all other limited-information procedures which we are aware of, short of specifying and estimating the entire system no estimates of the reduced form coefficients is possible using this procedure. Thus, projections of the dependent variables included in Y_j cannot be obtained simply on the basis of projections of the predetermined variables.

From Takeuchi's results [7] it is known that in certain cases, if P is of rank r then the even moments of order less than $r - L_j + 3$ of δ_j^* exist, but little else is known about its small sample properties. It has the desirable large sample property of consistency.

2. Applying a generalization of Aitken's theorem to equation (3), Swamy and Holmes [6] and Fischer and Wadycki [2] obtain the estimator:

$$\delta_j^- = (Z_j'E^-Z_j)^{-1}Z_j'E^-y_j \qquad (6)$$

where $E^- = X(X'X)^-X'$ and $(X'X)^-$ is any (weak) generalized inverse of $X'X$. Normally when the sample is undersized, the rank of X is n in which case $X(X'X)^-X = I$ so that $\delta_j^- = (Z_j'Z_j)^{-1}Z_j'y_j$, the ordinary least squares estimator for δ_j. Since δ_j^- becomes the two-stage least squares estimator when $n \geq K$ (assuming that the rank of X is then K), it does not share the property of inconsistency with the ordinary least squares estimator. Consistency, however, is a large sample property; it is the small sample properties of δ_j^- which are relevant in the present context. Mariano [4]

has shown that in the general case, the even moments of order less than $n-(K_j+L_j)+1$ of the ordinary least squares estimator exist. However, Sawa [5] has shown that, for an equation with $L_j=1$, the ordinary least squares estimator has a lower mean square error than other k-class $(0 < k \leq 1)$ estimators only in rather specialized circumstances. Reduced form parameters cannot be directly computed following this procedure. An advantage of the procedure, however, is its computational simplicity.

3. Partitioning X as $(X_j \vdots \bar{X}_j)$, where $\bar{X}_j$ is the $n x (K-K_j)$ matrix of observations on the predetermined variables excluded from the jth equation, equation (3) may be written:

$$\begin{bmatrix} X_j'y_j \\ \bar{X}_j'y_j \end{bmatrix} = \begin{bmatrix} X_j'Z_j\delta_j + X_j'\xi_j \\ \bar{X}_j'Z_j\delta_j + \bar{X}_j'\xi_j \end{bmatrix} . \qquad (3')$$

Theil's D_j-class estimator (d_j^*) is based on constrained estimation from the second subset of (3'), using some positive definite matrix $\sigma_{jj}D_j$ in place of $\sigma_{jj}\bar{X}_j'\bar{X}_j$ which is singular when $n < (K-K_j)$; see Theil [9]. The constraint, from the systematic part of the first subset of (3'), is $X_j'y_j = X_j'Z_jd_j^*$. Defining $C_j = \bar{X}_jD_j^{-1}\bar{X}_j'$, d_j^* is obtained by solving:

$$\begin{bmatrix} Z_j'C_jZ_j & \vdots & Z_j'X_j \\ X_j'Z_j & \vdots & 0 \end{bmatrix} \begin{bmatrix} d_j^* \\ \lambda_j \end{bmatrix} = \begin{bmatrix} Z_j'C_jy_j \\ X_j'y_j \end{bmatrix} \qquad (7)$$

where λ_j is a vector of Lagrangian multipliers. In practice, Theil suggests that D_j be diagonal, with diagonal elements taken from the diagonal of $\bar{X}_j'\bar{X}_j$. There are several disadvantages to the D_j-class

estimators. The choice of D_j is arbitrary and d_j^* is sensitive to this choice; Theil's suggested choice disposes of a fair amount of information contained in $X'X$. The reduced form is explicitly bypassed. The computational burden is roughly the same as for the two-stage least squares estimator. The small sample properties of d_j^* are unknown; Theil shows that it is a consistent estimator, but since its asymptotic covariance matrix differs from that of two-stage least squares it is not efficient (in the limited information sense).

IV. A PROPOSED CLASS OF ESTIMATORS

In partitioned form, we have:

$$X'X = \begin{pmatrix} X_j'X_j & \vdots & X_j'\bar{X}_j \\ \bar{X}_j'X_j & \vdots & \bar{X}_j'\bar{X}_j \end{pmatrix} . \tag{8}$$

Since $X_j'X_j$ is positive definite by assumption, if we "disturb" $\bar{X}_j'\bar{X}_j$ slightly by adding to it any (symmetric) positive definite matrix A_j (so that in Theil's notation, $D_j = \bar{X}_j'\bar{X}_j + A_j$) , a comparison of the quadratic forms associated with $X'X$ and

$$V_j = \begin{pmatrix} X_j'X_j & \vdots & X_j'\bar{X}_j \\ \bar{X}_j'X_j & \vdots & D_j \end{pmatrix} \tag{9}$$

shows that V_j is positive definite.

The partitioned inverse of V_j may be written:

$$V_j^{-1} = \begin{pmatrix} (X_j'X_j - X_j'C_jX_j)^{-1} & \vdots & -(X_j'X_j - X_j'C_jX_j)^{-1}X_j'\bar{X}_jD_j^{-1} \\ -(D_j - \bar{X}_j'E_j\bar{X}_j)^{-1}\bar{X}_j'X_j(X_j'X_j)^{-1} & \vdots & (D_j - \bar{X}_j'E_j\bar{X}_j)^{-1} \end{pmatrix} \tag{10}$$

where $E_j = X_j(X_j'X_j)^{-1}X_j'$ and (retaining Theil's notation) $C_j = \bar{X}_j D_j^{-1}\bar{X}_j'$.
Using (10), we define:

$$N_j = XV_j^{-1}X' = [X_j(X_j'X_j - X_j'C_jX_j)^{-1}X_j'][I-C_j] + [\bar{X}_j(D_j - \bar{X}_j'E_j\bar{X}_j)^{-1}\bar{X}_j'][I-E_j]. \quad (11)$$

It follows immediately from equation (11) that N_j is symmetric and that $N_jX_j = X_j$; therefore $X_j'N_j = X_j'$. The estimator for δ_j based on N_j ($\tilde{\delta}_j$) , is obtained by simply replacing E with N_j in equation (4), giving:

$$\tilde{\delta}_j = (Z_j'N_jZ_j)^{-1}Z_j'N_jy_j \quad . \qquad (12)$$

The estimator $\tilde{\delta}_j$ has several desirable properties. It is a true limited-information estimator. In terms of computational difficulty, it is equivalent to two-stage least squares. Under the usual assumptions (see, for example, Theil [8, Chapter 10]), it is also asymptotically equivalent to two-stage least squares, assuming plim $n^{-1}A_j = 0$ since then plim $n^{-1}V_j$ = plim $n^{-1}X'X$. Thus, $\tilde{\delta}_j$ is consistent, asymptotically efficient (in the limited information sense), and asymptotically normally distributed with mean δ_j and a covariance matrix which is consistently estimated by:

$$\tilde{S}_{jj}(Z_j'N_jZ_j)^{-1}Z_j'N_jN_jZ_j(Z_j'N_jZ_j)^{-1} \qquad (13)$$

where

$$\tilde{S}_{jj} = \frac{1}{n-K_j-L_j}(y_j - Z_j\tilde{\delta}_j)'(y_j - Z_j\tilde{\delta}_j) \qquad (14)$$

is, by the above, a consistent estimator for σ_{jj}.

Further, a consistent (but biased) estimate of the reduced form parameters of the system (Π) is obtained from:

$$\tilde{\Pi} = V_j^{-1}X'Y \quad . \tag{15}$$

Let $\tilde{\Pi}_j$ represent the columns of $\tilde{\Pi}$ corresponding to Y_j. Note that $X\tilde{\Pi}_j = N_jY_j = \tilde{Y}_j$, so $N_jZ_j = (\tilde{Y}_j \vdots X_j)$. Given projections of the predetermined variables of the system, $X^P = (X_j^P \vdots \bar{X}_j^P)$, we may project Y_j from

$$Y_j^P = X^P\tilde{\Pi}_j \tag{16}$$

and then, defining $Z_j^P = (Y_j^P \vdots X_j^P)$, project y_j from $Z_j^P\tilde{\delta}_j$.

While the proposed estimator $\tilde{\delta}_j$ is defined for any suitable choice of A_j, in practice we suggest specifying $A_j = aI$ where $0 < a < \infty$. Simplicity is, of course, a major advantage of this specification. In addition, our (quite limited) experience with this specification, reported below, suggests that the elements of $\tilde{\delta}_j$ are reasonably stable over fairly large ranges of a. Our current research is directed in part toward finding the "optimal" value of a for a given equation. A second direction for research is the small sample properties of $\tilde{\delta}_j$.

V. ESTIMATION OF KLEIN'S MODEL I - AN ILLUSTRATION

Although the sample underlying Klein's Model I is not undersized (n=21, K=8), it has the advantage that it has been estimated using all of the alternative procedures previously discussed, including two-stage least squares, so that a numerical comparison of the various procedures is possible. The model consists of three behavioral equations:

$$C_t = \gamma_1 P_t + \gamma_2(W_t + W_t') + \beta_1 P_{t-1} + \beta_0 + \xi_t \tag{17}$$

$$I_t = \gamma_1' P_t + \beta_1' P_{t-1} + \beta_2' K_{t-1} + \beta_0' + \xi_t' \tag{18}$$

$$W_t = \gamma_1'' X_t + \beta_1'' X_{t-1} + \beta_2''(t-1931) + \beta_0'' + \xi_t'' \tag{19}$$

where t is measured in calendar years, C is consumption, P profits, W the private wage bill, W' the government wage bill, I net investment, K capital stock at the end of the year, and X the output of the private sector. The six endogenous variables are C, P, I, W, X and K; the model is closed by three definitional equations. The eight predetermined variables consist of three lagged endogenous variables, P_{-1}, K_{-1}, X_{-1} and t, W', 1 (the constant), T (business taxes), and G (government nonwage expenditure). In (17), W+W' is considered one endogenous variable. The underlying data is available in Theil [8, page 456].

Point estimates of coefficients, their asymptotic standard errors, and estimated variances are shown in the accompanying table. For the procedure proposed in this paper, coefficient point estimates are from equation (12), standard errors are square roots of the diagonals from equation (13), variances are from equation (14), and we have specified $A_j = aI$.

Using the full sample (n=21), the proposed estimator with a=1 gives results which are virtually identical to two-stage least squares. This result is to be expected, since when n>K, the proposed procedure converges to the two-stage least squares procedure as $a \to 0$. With a=21, coefficients on the highly correlated variables P and P_{-1} in equations (17)

and (18) and X and X_{-1} in equation (19) diverge somewhat from the two-stage least squares estimates. Standard errors, however, are quite similar. For Theil's D_j-class procedure, standard errors tend to be larger in all equations, and the divergence of coefficients on P and P_{-1} in equations (17) and (18) from the two-stage least squares estimates is greater than for the proposed procedure, but there is no divergence for any coefficient in equation (19). The Kloek and Mennes principal components procedure performs quite well in equation (18), but the coefficient of P in equation (17) and of X and X_{-1} in equation (19) diverge somewhat from the two-stage least squares estimates. These results, of course, are no more than suggestive of the relative merits of the alternative procedures.

To illustrate the proposed procedure when the sample is undersized, Klein's Model I was estimated for n=7, where the observations are those for 1922, 25, 28, 31, 34, 37 and 1940. These years are fairly representative of the full 21 year observation period. Note that when $n < K$, as $a \to 0$ the proposed procedure converges to ordinary least squares, which normally coincides with the procedure of Swamy and Holmes [6] and Fischer and Wadycki [2].

ALTERNATIVE PARAMETER ESTIMATES OF KLEIN'S MODEL I

Estimation Procedure	Equation 17 (C)					Equation 18 (I)					Equation 19 (W)				
	γ_1 (P)	γ_2 (W+W')	β_1 (P_{-1})	β_0 (1)	σ^2_ξ	γ_1' (P)	β_1' (P_{-1})	β_2' (K_{-1})	β_0' (1)	$\sigma^2_{\xi'}$	γ_1'' (X)	β_1'' (X_{-1})	β_2'' (t-1931)	β_0'' (1)	$\sigma^2_{\xi''}$
1. Two-stage least squares (n=21)	.02 (.13)	.81 (.04)	.22 (.12)	16.6 (1.5)	1.29	.15 (.19)	.62 (.18)	-.16 (.04)	20.3 (8.4)	1.71	.44 (.04)	.15 (.04)	.13 (.03)	1.5 (1.3)	.59
2. Proposed estimator (n=21, a=1)	.02 (.13)	.81 (.04)	.21 (.12)	16.5 (1.5)	1.28	.14 (.19)	.62 (.18)	-.16 (.04)	20.5 (8.5)	1.73	.44 (.04)	.15 (.04)	.13 (.03)	1.5 (1.3)	.59
3. Proposed estimator (n=21, a=21)	.05 (.13)	.81 (.04)	.19 (.12)	16.4 (1.4)	1.20	.12 (.21)	.64 (.20)	-.16 (.04)	21.3 (8.9)	1.85	.41 (.04)	.17 (.05)	.14 (.03)	1.6 (1.3)	.61
4. Theil's D_j-class [1/] (n=21)	.09 (.19)	.82 (.04)	.15 (.16)	16.1 (1.4)	1.12	.06 (.32)	.69 (.29)	-.17 (.06)	23.0 (11.9)	2.12	.44 (.09)	.15 (.09)	.13 (.03)	1.5 (1.3)	.59
5. Kloek and Mennes [2/] (n=21)	-.00 (.19)	.81 (.05)	.23 (.16)		1.35	.15 (.21)	.62 (.19)	-.16 (.04)		1.72	.40 (.05)	.18 (.05)	.14 (.03)		.64
6. Proposed estimator (n=7, a=1)	.12 (.13)	.83 (.06)	.26 (.18)	13.4 (2.1)	.65	.21 (.06)	.59 (.06)	-.18 (.01)	23.2 (2.8)	.04	.36 (.07)	.19 (.07)	.15 (.06)	3.9 (2.4)	.54
7. Proposed estimator (n=7, a=7)	.08 (.16)	.82 (.07)	.30 (.20)	13.6 (2.3)	.76	.14 (.13)	.66 (.13)	-.19 (.03)	26.0 (5.6)	.07	.37 (.07)	.19 (.07)	.15 (.06)	3.8 (2.4)	.55
8. Ordinary least squares [3/] (n=7)	.19 (.12)	.83 (.06)	.19 (.16)	13.1 (1.9)	.59	.23 (.05)	.57 (.06)	-.17 (.01)	22.3 (2.5)	.04	.34 (.07)	.20 (.07)	.15 (.06)	4.1 (2.4)	.53

1/ From Theil [9], pages 123 and 124. Variances and standard errors have been corrected for degrees of freedom.

2/ From Kloek and Mennes [3], page 59. The results are those using two principal components for all three equations and their method 4, in which principal components are computed for all predetermined variables. Variables were measured as deviations from means and therefore no constant was reported. Note that they report σ rather than σ^2.

3/ Since $n < K$, OLS corresponds to the procedure of Swamy and Holmes [6] and Fischer and Wadycki [2]. Standard errors computed as if Z_j contained only predetermined variables.

REFERENCES

1. Dutta, M. and E. Lyttkens, "Iterative Instrumental Variables Method and Estimation of a Large Simultaneous System", Journal of the American Statistical Association, 69,348 (December 1974), 977-986.

2. Fischer, Walter D. and Walter J. Wadycki, "Estimating a Structural Equation in a Large System", Econometrica, 39,3 (May 1971), 461-465.

3. Kloek, T. and L.B.M. Mennes, "Simultaneous Equations Estimation Based on Principal Components of Predetermined Variables", Econometrica, 28,1 (January 1960), 45-61.

4. Mariano, Roberto S., "The Existence of Moments of the Ordinary Least Squares and Two-Stage Least Squares Estimators", Econometrica, 40,4 (July 1972), 643-652.

5. Sawa, Takamitsu, "Finite-Sample Properties of the k-Class Estimators", Econometrica, 40,4 (July 1972), 653-680.

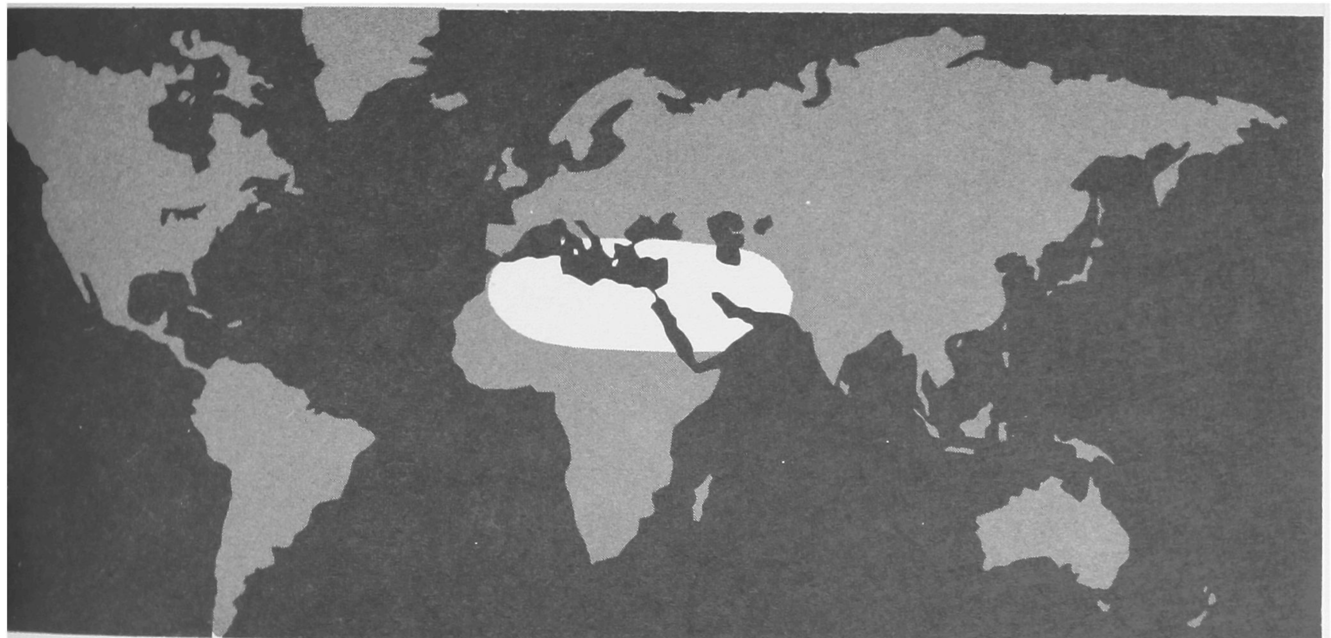
6. Swamy, P.A.V.B. and James Holmes, "The Use of Undersized Samples in the Estimation of Simultaneous Equation Systems", Econometrica, 39,3 (May 1971), 455-459.

7. Takeuchi, K., "Exact Sampling Moments of the Ordinary Least Squares, Instrumental Variable, and Two-Stage Least Squares Estimators", International Economic Review, 11,1 (February 1970), 1-12.

8. Theil, Henri, Principles of Econometrics, New York: John Wiley and Sons, 1971.

9. Theil, Henri, "A Simple Modification of the Two-Stage Least-Squares Procedure for Undersized Samples", in Arthur S. Goldberger and Otis Dudley Duncan (eds.), Structural Equation Models in the Social Sciences, New York: Seminar Press, 1973, 113-129.

Middle Eastern Multinational Financial Institutions



DEPARTMENT OF THE TREASURY

OFFICE OF THE ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS

Middle Eastern Multinational Financial Institutions

U.S. Department of the Treasury
Gerald L. Parsky
Assistant Secretary for International Affairs
July, 1976

Prepared by the Office of Developing Nations

For sale by the Superintendent of Documents, U. S. Government Printing Office
Washington, D. C. 20402 — Price 95¢
Stock Number 048-000-00286-2

Foreword

The Middle East has become an area of rapid economic growth and increasing activity in the fields of international trade, investment and other financial flows. New institutions have grown up to meet the area's enormous domestic development requirements and to provide channels for productive placement of funds deriving from oil exports.

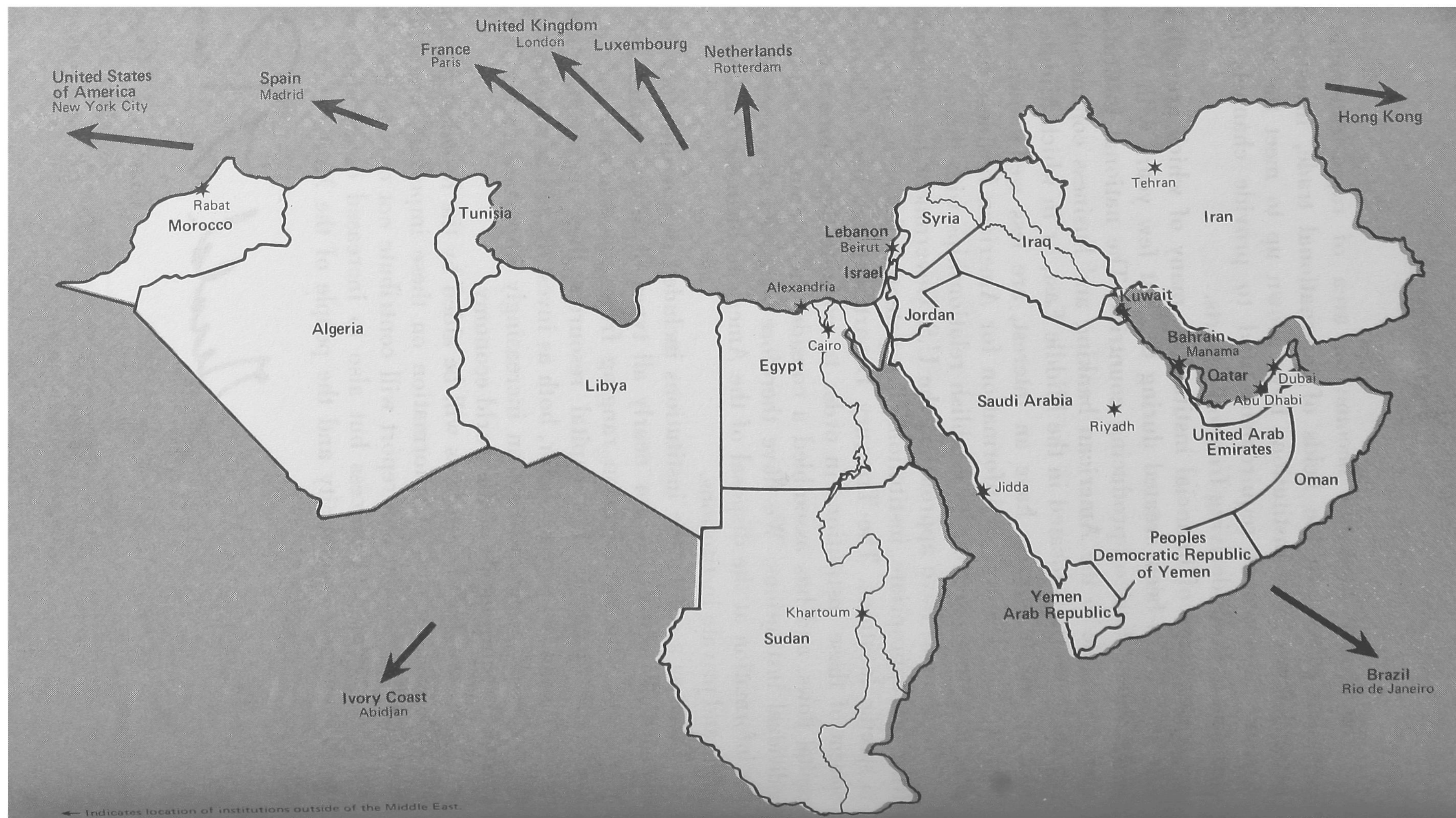
A vast array of financial institutions, many of which are still in the formative stages, has been created during the last few years with the participation of the Middle East oil-producing countries. The national institutions are relatively accessible to the American banking and business community. The multinational institutions located in the Middle East, or in which Middle East government or private entities have an interest, are less well-known, and there has been no central source of information for American business firms, banks and other institutions seeking to establish relationships with them.

Many firms have approached the U.S. Government for assistance in identifying the appropriate institutions for potential financing of specific projects in specific locations. The Treasury Department has been following the development of these institutions in order to evaluate their impact on international capital flows, and has assembled a considerable amount of information on the individual institutions. We have therefore prepared this special report to put this information at the disposal of the American business community and other public and private institutions.

Taken as a whole, the institutions included in this directory provide financing virtually worldwide, for nearly all types of infrastructure and productive investments, with participation ranging from concessionary aid to equity and commercial financing. The capital resources they represent, combined with the activities of the private sector, both as investors and as sources of technology and managerial skills, will be an increasingly important factor in meeting the investment requirements of the world economy.

We believe that this process will be aided by the broadest possible development and dissemination of information on these important financial intermediaries. Our hope is that this report will contribute not only to the global investment and development process but also to increased cooperation between the American business community and the people of the Middle East.

GERALD L. PARSKY
Assistant Secretary
of the Treasury


United States
of America
New York City
Spain
Madrid
France
Paris
United Kingdom
London
Luxembourg
Netherlands
Rotterdam
Hong Kong
Rabat
Morocco
Algeria
Tunisia
Libya
Egypt
Alexandria
Cairo
Lebanon
Beirut
Israel
Syria
Jordan
Iraq
Tehran
Iran
Kuwait
Bahrain
Manama
Qatar
Dubai
Abu Dhabi
United Arab
Emirates
Saudi Arabia
Riyadh
Jidda
Oman
Peoples
Democratic Republic
of Yemen
Yemen
Arab Republic
Khartoum
Sudan
Ivory Coast
Abidjan
Brazil
Rio de Janeiro
← Indicates location of institutions outside of the Middle East.

Contents

Page

I. Introduction ---------- 1

II. Institutions ---------- 3

African Development Bank ---------- 6
Afro-Arab Company for Investment and International Trade ---------- 7
Arab-African Bank ---------- 7
Arab Bank for Economic Development in Africa ---------- 8
Arab Bank for Investment and Foreign Trade ---------- 10
Arab-Brazilian Investment Company ---------- 10
Arab Finance Corporation ---------- 11
Arab Financial Consultants Company ---------- 11
Arab Fund for Agricultural Investment and Development ---------- 12
Arab Fund for Economic and Social Development ---------- 12
Arab Fund for Technical Assistance to Arab and African Countries -- 14
Arab International Bank ---------- 16
Arab International Company for Hotels and Tourism ---------- 16
Arab International Finance Company ---------- 17
Arab International Insurance Company ---------- 18
Arab Investment Company ---------- 18
Arab Investors Union ---------- 20
Arab Joint Investment Company ---------- 20
Arab Monetary Fund ---------- 21
Arab and Morgan Grenfell Finance Company ---------- 22
Arab Petroleum Investment Company ---------- 23
Arab Trust Company ---------- 23
Banco Arabe-Español ---------- 24
Banque Franco-Algérienne ---------- 25
Banque Franco-Arab d'Investissements Internationaux ---------- 25
Banque Inter-Continentale Arabe ---------- 26
Banque d'Investissement et de Financement S.A.L. ---------- 26
Banque Nationale pour le Développement Économique ---------- 27
Compagnie Arabe et Internationale d'Investissement ---------- 27
Compagnie d'Investissement Irano-Française ---------- 28
Development and Investment Bank of Iran ---------- 29
Dubai Islamic Bank ---------- 30
Egypt-Kuwait Investment Company ---------- 30
First Arabian Corporation ---------- 31
Fund for Arab Oil Importing Countries ---------- 32
Gulf International Bank ---------- 32
Hexalon ---------- 33
Industrial and Mining Development Bank of Iran ---------- 34
Inter-Arab Investment Guarantee Corporation ---------- 34
International Financial Advisors SAK ---------- 36

	Page
Iran Overseas Investment Bank	36
Islamic Development Bank	37
Kuwait Financial Centre SAK	38
Kuwait International Finance Company	39
Kuwait-Pacific Finance Company	40
Misr Iran Development Bank	40
OPEC Special Fund	41
PEC Israel Economic Corporation	42
Saudi-Egyptian Industrial Investment Company	43
Saudi-Egyptian Reconstruction Company	43
Saudi International Bank	44
Solidarity Fund for Economic and Social Development in Non-Aligned Countries	44
Special Arab Fund for Africa	45
Sudanese-Kuwaiti Investment Company Ltd.	46
Union de Banques Arabes et Françaises	47
III. Index by Location of Headquarters	49

Introduction

The financial resources of the oil-producing countries of the Middle East have risen dramatically in the past few years as a consequence of the sharp increase in oil prices. In order to channel their surplus financial resources not needed to meet their domestic requirements into productive outlets which will provide them with an adequate return, and to begin to share in the traditional responsibility of wealthy nations for helping to meet the needs of the poorer nations, the Middle East oil-producing countries have created, or participated in the creation of, a substantial number of new financial institutions.

Although some of these have been purely national institutions, there has been an unprecedented increase in the number of multinational organizations in which oil-producing countries play a major role. This growth seems to have stemmed in part from the desire of the Middle East producers for greater influence over the use of their funds, or for greater political impact, than they could achieve through existing international financial institutions.

It has also stemmed from the variety of regional and functional groupings in which these countries participate and their desire for greater economic cooperation among themselves. Organizations such as the Gulf International Bank are designed to foster cooperation among the Gulf States, while the objective of the Arab Monetary Fund, the Arab Fund for Economic and Social Development and the Arab International Bank is to foster cooperation among the Arab states. The Islamic Development Bank operates in a still larger area, including non-Arab as well as Arab Islamic countries.

The growth in multinational banking institutions with developed country and oil-producing country participation reflects an awareness of the usefulness of these institutions in combining capital from the Middle East with the financial expertise and experience of the developed country partner in investment activities in many parts of the world. In some cases, such as the Saudi International Bank, specific provision is made for training the nationals of the Middle East partner in international banking practices.

Most of these multinational institutions—and all of the institutions offering concessionary assistance—are physically located in the Middle East. Although most of the organizations included in this Directory were established since 1974, when the rise in oil prices increased the wealth and economic responsibilities of the oil-producing countries—and several are still in the process of formation—a few are older. The Industrial Mining and Development Bank of Iran and the Banque Nationale pour le Développement Économique in Morocco were established in 1959, the African Development Bank and the Arab-African Bank in 1964 and the Arab Fund for Economic and Social Development was established in 1971.

The multinational institutions covered in this directory can be broken down into groups of organizations which provide financing on either concessionary or commercial terms. Inter-governmental institutions providing concessional financing represent total authorized capital of more than $6 billion, of which, however, only about $500 million appears to have been paid in thus far. Institutions

providing non-concessionary financing have authorized capital ranging from about $2 million to $300 million. However, the capitalization of these latter institutions is not an adequate measure of their financial importance since many have substantial borrowing capacity and operate as underwriters and as participants in syndicates to mobilize financing from other sources. They were, for example, among the managers for several of the largest medium-term credits arranged for governments during 1975. The Union de Banques Arabes et Françaises (UBAF) and the Arab-African Bank joined American, European and Japanese banks in managing a $500 million five-year credit to the Iraq Central Bank. The Banque Arabe et Internationale d'Investissement and UBAF were among the managers of a seven-year $400 million credit to the Algerian Banque Nationale and Banque Extérieure; the UBAF, as well as the national Libyan Arab Foreign Bank and the Kuwait Foreign Trading, Contracting and Investment Company helped manage a $200 million seven-year loan to Morocco.

Inter-Governmental Institutions Providing Concessionary Financing

1. *Project Aid*

A number of the institutions were established by the Middle East countries to provide concessionary financing for non-oil-producing developing countries, either as project aid or for balance of payments support. The Arab Fund for Economic and Social Development (AFESD) is the most prominent in the first category. Established in 1971 with an initial capital of $350 million to finance economic and social development projects and programs in the Arab countries on concessional terms, its capital was increased to $1.4 billion in April 1975. Its terms vary according to the economic position of the recipient from a 4 percent interest rate for the poorest countries to 6 percent for others. The terms also take into account the type of project and degree of risk. The Fund gives priority to financing inter-Arab development projects and stimulating public and private investment by others in the Arab countries through joint financing activities.

Provision of concessionary project aid is a function also of the new Islamic Development Bank (IDB), the African Development Bank, the Arab Bank for the Economic Development of Africa (ABEDA), and the Arab Petroleum Investment Company (APIC). Several proposed new funds will also provide concessionary project aid. These include the OPEC Fund for Developing Countries, for which the OPEC countries have pledged $800 million for 1976 for both project and balance of payments support, the Solidarity Fund for Economic and Social Development in Non-Aligned Countries, and the Arab Monetary Fund.

For the most part, these institutions differ not only in membership but also in proposed recipients for their assistance. The Islamic Development Bank is expected to concentrate on the non-Arab Islamic countries since the Arab countries can receive assistance from the AFESD. For the same reason, the ABEDA will concentrate on non-Arab African countries. There are differences also in the contemplated operations of each. While all will provide loans on concessional terms, the IDB will charge no interest, although it may apply a service charge of 2-3 percent. The IDB is unusual among these institutions in that it will provide equity capital as well as loans. The proposed OPEC Fund will be unique in that it is expected to operate through national executing agen-

cies in member countries and through international organizations rather than set up a staff of its own for this purpose.

2. *Balance of Payments Support*

Concessionary aid for balance of payments purposes is being provided by two institutions: the Fund for Arab Oil Importing Countries and the Special Arab Fund for Africa (SAFA). The former committed about $80 million annually in 1974 and 1975 in interest-free loans solely to Arab countries for balance of payments problems associated with the high price of petroleum; SAFA committed $185 million annually in 1974 and 1975 in interest-free loans, with 1 percent commission, to African countries for similar reasons and to compensate those which had broken off relations with Israel for the economic loss incurred.

Institutions Providing Financing on Commercial Terms

The proliferation of multinational institutions providing non-concessionary financing has been even greater, and the range of their activities more diverse than in the concessional aid field. Whereas the capital of all of the institutions providing concessionary aid is contributed by governments, the capital of the institutions providing financing on commercial and near-commercial terms may be subscribed to by governments, quasi-governmental agencies, private organizations and/or private individuals.

1. *Government-Owned Institutions*

The Arab Investment Company, Gulf International Bank and the Arab African Bank are the principal examples of institutions whose capital is subscribed entirely or almost entirely by Arab Governments. The Gulf International Bank has an unusual provision permitting up to 49 percent of each government's share to be made available to individuals and companies located in that country. The Arab Investment Company (AIC) established in 1974 with a capital of $300 million as of October 1975 is probably the largest institution in this category. Its functions are to invest Arab public funds in equities preferably, or in loans on commercial terms, to develop the resources and carry out productive projects in its member states, giving priority to development of agribusiness, metal-working industries and tourism. AIC's first projects included a 17 percent subscription to the capital of the Kenena Sugar Company to operate Sudan's sugar estate project and a 10 percent subscription to the capital of the Arab International Insurance Company. The AIC has also agreed to help finance the Arab Company for Mining and the Arab Company for the Development of Livestock Resources. As was the case with the concessionary aid institutions, the development financing of most of the institutions in this category is confined to the Arab and African countries.

2. *Bilateral Institutions*

Another substantial group of joint ventures involves the institutions of only two countries, generally one an oil-producing country and the other a non-oil-producing developing country. Many of these involve Egypt—the Egypt-Kuwait Investment Company, the Saudi-Egyptian Industrial Investment Company, the Saudi-Egyptian Reconstruction Company and the Misr Iran Develop-

ment Bank—and are designed, either principally or exclusively, to promote investment in Egypt. Another bilateral institution is the Arab-Brazilian Investment Company, in which Brazilian and Kuwait companies are shareholders.

3. *Institutions with Developed Country Partners*

A substantial group of institutions combine Middle East capital with the banking experience and skills of banks in the developed countries, generally in a world-wide merchant banking type of operation. These include institutions, such as the Union de Banques Arabes et Françaises (UBAF), which recently set up an affiliate in New York, the Arab Finance Corporation, the Arab Trust Company, and the Saudi International Bank, which engage in the management, underwriting and placing of international bond issues, provide medium- and long-term financing, and handle Eurocurrency loans. Some institutions in this category direct their financing to specific regional areas such as the Arab deficit countries (Banque Franco-Arab d'Investissements Internationaux); the Arab countries generally (UBAF); the Middle East (Banque d'Investissement et de Financement S.A.L. and Arab and Morgan Grenfell Finance Company); Southeast Asia, Australasia, Japan, Canada and Brazil (Kuwait Pacific Finance Company Ltd.) and Iran (the Industrial and Mining Development Bank of Iran, Development and Investment Bank of Iran and the Iran Overseas Investment Bank (IOIB)). The IOIB is concerned also with helping the Government of Iran invest its funds abroad.

4. *Institutions Undertaking Equity Investment*

A number of these merchant banking institutions are prepared to provide equity capital as well as loans. These include the Dubai Islamic Bank, First Arabian Corporation, the Compagnie d'Investissement Irano-Francaise, and the Industrial Mining and Development Bank of Iran.

5. *Institutions Designed to Facilitate Investment*

Another group of multinational institutions included in this report, although they do not themselves provide financing, are designed to facilitate international investment in a variety of ways. For example, they may help by providing advice, insurance and investment guarantees or by identifying and developing project proposals. The Arab International Insurance Company, with capital provided by Middle East, European and Japanese insurance companies, offers broad commercial insurance coverage to Arab and non-Arab companies, for industrial, commercial and other development projects in free zones. The Inter-Arab Investment Guarantee Corporation, which includes all members of the Arab League except Oman and South Yemen, is designed to guarantee Arab investors against losses from expropriation, nationalization and other non-commercial risks on investment in another Arab country.

Information Regarding The Directory

Financial institutions were selected for inclusion in this Directory on the basis of the following criteria: 1) the institution is multinational in that its capital is subscribed to by two or more countries, their institutions or nationals; 2) one or more Middle East government or institution is a member or shareholder; and 3) the institution provides equity participation, and/or medium-

or long-term financing. Institutions with purely commercial banking functions are excluded. In addition, the institutions, such as the Arab International Insurance Company and the Inter-Arab Investment Guarantee Corporation, which facilitate international investment, are included although they do not themselves provide financing. While this Directory attempts to include all institutions meeting the above criteria, it is possible that some institutions have been omitted inadvertently. Several institutions were not included because too little information was available on their activities.

The material in this Directory has been compiled from a variety of published and unpublished sources including, in some cases, discussions with the institutions themselves or with some of their participants. It has not always been possible, however, to obtain complete information on the institutions.

Figures in non-U.S. currencies have been converted to dollars on the basis of exchange rates for 1975 as shown in the International Monetary Fund's *International Financial Statistics*.

African Development Bank[1]

Headquarters:	Abidjan, Ivory Coast
Address:	B.P. 1387, Abidjan
Date Established:	1964
Administration:	President: Mr. Abdelwahab Labidi Senior Vice President: Mr. Louis Nagre Director of Finance: Omar A. Ali Director of Operations: M. E. Helw Special Assistant to the President: Ime Ebong
Membership:	Any independent African country is eligible for membership. At present forty-one countries are members, including eight Arab countries which accounted for 40% of the Bank's total subscribed capital in 1975 including: Libya 13%, Algeria 10%, Egypt 8%, Morocco 5%, and Sudan 3%.
Capital:	As of December 31, 1975, $484 million was authorized; $469 million was subscribed; and $235 million was paid in.
Functions:	To serve as regional development bank by providing financial assistance to its members for high priority projects which will contribute to the borrower's economic and social advancement.
Terms:	Since 1972 the Bank has made loans at 6% plus a 1% commission fee with maturities from 8 to 20 years plus a variable grace period of 3 to 6 years.
Operations:	The Bank has concentrated its resources in the transportation and public utilities sectors. During the 1965-75 period it loaned $317 million to 37 members for 107 projects.
Other:	The African Development Fund was established in 1973 to complement the activities of the Bank by providing concessional resources to the Bank's members. The present members of the Fund are Canada, Brazil, Japan, Saudi Arabia, twelve European donors and the Bank itself. Authorization for U.S. membership is currently pending before Congress. Total resources were $152 million as of December 1975.

[1] This is a regional development bank whose capital has been pledged exclusively by African countries. It is included in this report because eight of its members are also Arab countries.

Afro-Arab Company for Investment and International Trade (AFARCO)

Headquarters:	Kuwait
Address:	Fahad Al-Salem Street Aliredha Bldg., 2nd floor P.O. Box 5024 Safat
Telephone/Telex:	423380/AFARCO 2081
Date Established:	July, 1972
Administration:	Chairman and Managing Director: Mahaud al-Hunaifi General Manager: Dr. Mohamed Ahmad Al-Ghanem Deputy Director for Projects: Namil Al-Gamal
Shareholders:	Kuwait Foreign Trading, Contracting and Investing Co. (KFTCIC)—62%; Arab-African Bank, Misr Lebanon Bank, private investors—38%.
Capital:	KD 2 million ($7 million).
Functions:	To finance development projects in Arab and African countries in collaboration with local interests; to promote international trade and financial operations, chiefly between Arab and African countries.
Operations:	Provided financing for a tanning factory in Uganda, building construction in Abu Dhabi and Mauritania, and contributed to establishment of the Senegali-Kuwaiti Real Estate Company and the Yemeni-Kuwaiti Trading Company.

Arab-African Bank

Headquarters:	Cairo, Egypt
Address:	44, Abdel Khalek Sarwat Street
Telephone/Telex:	916710/916744//ARABFRO 2071
Date Established:	1964
Administration:	Chairman and Managing Director: Dr. Suleiman Ahmed El Haddad of Kuwait Deputy Chairman and Managing Director: Dr. Mahmoud Bahir Onsy 10 member Board of Directors

Arab-African Bank—Continued

Shareholders:	Kuwait Ministry of Finance and Central Bank of Egypt 42.4% each; Rafidain Bank (Iraq) 10.0%; Central Bank of Algeria 2.0%; Jordanian Ministry of Finance 1.0%; Qatari Ministry of Finance 0.5%; Arab nationals 1.7%.
Capital:	Increased from £E 10 million to £E 20 million ($51 million) authorized in 1974 and fully paid up.
Functions:	To operate as an off-shore bank, mainly to finance international trade and development projects in the Arab and African countries, including both direct investment and long-term loans, and to engage in commercial banking activities.
Terms:	Range from short-term classical business to 15 years, generally at market rates of interest.
Operations:	As of 12/31/74, deposits totalled £E 208 million, loans and advances £E 148 million; portfolio investment (securities, investments, development loans) £E 11 million; balance sheet £E 447 million. Activities included arranging £E 12 million ($25 million) 6-year loan to Sudan for construction of a sugar plant at Hagar Assalayn in White Nile Province; £E 2.5 billion for transportation and tourism in Egypt; and projects in Algeria, Chad, Ethiopia, Lebanon, Jordan, Kenya, Syria, Tunisia and Zambia.

Arab Bank for Economic Development in Africa (ABEDA) (Arab Bank for Industrial & Agricultural Development in Africa)

Headquarters:	Khartoum, Sudan
Address:	P.O. Box 2640 (Baladiya Street)
Telephone/Telex:	T3645/6/7//K.M. 248
Date Established:	Agreement establishing ABEDA, signed in February 1974, became effective in September 1974 upon ratification by requisite number of countries.
Administration:	Chairman of the Board and Managing Director: Dr. Chedly Ayari of Tunisia; Board of Governors has overall responsibility for the Bank; Board of Directors draws up general policy and follows up on implementation in accordance with the establishment agreement and instructions of the Board of Governors.

Arab Bank for Economic Development in Africa (ABEDA) (Arab Bank for Industrial & Agricultural Development in Africa)—Continued

Membership: Saudi Arabia, Algeria, Kuwait, Qatar, Bahrain, Libya, Lebanon, Egypt, Mauritania, Syria, Palestine Liberation Organization, Jordan, Sudan, Oman, Morocco, Tunisia, Iraq, UAE.

Capital: $231 million increased to $500 million in August 1975; largest contributors and their initial subscriptions are: Saudi Arabia ($50 million); Iraq ($30 million); Kuwait, Algeria and UAE ($20 million each) and Libya ($1 million). Paid-in capital was $55.2 million as of July 1975. Bank can borrow up to twice its paid-in reserves.

Functions: To promote and support economic, financial and moral cooperation between the African and Arab countries by:

1. providing financial and technical assistance for the economic development of the African countries;
2. encouraging Arab funds to take part in African development;
3. financing medium and small-size projects in cooperation with the IBRD, FAO, African Development Bank and the various Arab funds.

All black African countries which are not members of the Arab League are eligible. Priority is to be given to financing for national and regional development finance institutions and to key industrial and agricultural projects, and to providing technical and financial aid for identification of projects and acquisition of technology.

Financial Terms: ABEDA envisages a mixture of concessional assistance (long-term, soft loans) and profit making. Interest rate varies from 2 to 6 percent, depending on the economic position of the recipient country. Goods are to be procured by international competitive bidding: preference may be given to Arab and African suppliers.

Operations: By the end of November 1975, the Bank had approved 12 loans totalling $85.5 million, representing 10-12% of the cost of each project. Almost $55 million went for transportation projects: highways in Madagascar, Niger and Lesotho, railways in Upper Volta and the Congo, and port expansion in Cameroon: most of the balance went for industrial projects, and about 10% for the agricultural sector.

Arab Bank for Investment and Foreign Trade (ABIFT)

Headquarters: Abu Dhabi

Address: PO Box 2484
Abu Dhabi, UAE

Telephone/Telex: 42093/2455 ARBIFT AH

Date Established: Agreement establishing ABIFT signed in Abu Dhabi, April 1974.

Administration: Director and General Manager: Bader Eddine Nouioua, responsible for day to day operations; six member Board of Directors (2 from each constituent party) directs Bank's activities; Committee of Experts helps the Board; General Assembly, composed of all shareholders, meets at least once each year.

Shareholders: Abu Dhabi, Libyan Arab Foreign Bank, Algerian Foreign Bank with equal shares.

Capital: 60 million dirhams ($15 million) fully paid in. Unlimited borrowing capacity.

Functions: To carry out all commercial banking operations: to undertake short-, medium- and long-term investment; and to finance foreign trade. Its main purpose will be to mobilize resources for investment in Arab and African countries. The Bank plans to 1) finance development projects in Arab countries, 2) participate in syndicates for extending Eurocurrency loans to Arab Governments, and 3) underwrite bond issues of Arab Governments and institutions.

Terms: Interest on deposits at UAE market rate, loans extended for up to five years.

Operations: Began September 1975.

Arab-Brazilian Investment Company

Headquarters: Rio de Janeiro, Brazil

Address: Av. Rio Branco, 31 - 15th floor

Date Established: July 1975 (statutes agreed upon in late 1974)

Administration: Chairman of the Administrative Council:
Marcos Pereira Vianna
Chief Operating Officer: Roberto Procopia Lima Netto

Shareholders:	Kuwait Investment Company, Kuwait International Investment Company, and Kuwait Foreign Trading, Contracting and Investment Company—50% Banco Nacional do Desenvolvimento Econômico (BNDE, Brazil)—50%
Capital:	Raised from $40 million to $300 million, to be shared equally by Kuwait and Brazil.
Functions:	To invest in industrial, mineral, petrochemical and agricultural projects in Brazil only.
Operations:	Company is in operation.

Arab Finance Corporation

Headquarters:	Beirut, Lebanon
Address:	Gefinor Centre, Block D, Clemenceau St., P.O. Box 155–527
Date Established:	1974
Shareholders:	Manufacturers Hanover Trust Co. (U.S.), Investment Promotion Group (Lebanon), and Banque de l'Union Europeenne (France), and Kuwait Investment Co. (Kuwait)—18% each; Bank of Tokyo (Japan) —10%; Crédit Libanais (Lebanon) and Beirut Riyadh Bank (Lebanon)—9% each.
Capital:	£L 6 million ($2.6 million)
Functions:	Management, underwriting and placing of international bond issues; lending operations, foreign exchange operations.

Arab Financial Consultants Company

Headquarters:	Kuwait
Address:	Al-Duaij Bldg., Mubarak al-Kabir St. P.O. Box 23767 Safat
Telephone/Telex:	415650/415659/441747/419498//2421
Date Established:	January, 1975
Administration:	Chairman: Mr. Khalid Issa Al-Saleh Managing Director: Dr. Abdel Moneim Al-Tanamli

Arab Financial Consultants Company—Continued

Shareholders:	Private Kuwait interests—51%; other private Arab investors—25%; Taiyo Kobe Bank, Banque de Suez et de l'Union des Mines, Arbuthnot Latham and Co. Ltd. (UK), and Philadelphia International Investment Corporation—6% each.
Capital:	KD 500,000 ($1.7 million); KD 100,000 paid up.
Functions:	To act as financial consultants for projects, including industrial, agricultural and service fields. To place direct equity investment, arrange and manage public issues, arrange portfolio investment, real estate investments or short-term money operations.
Operations:	Operations began January 1976.

Arab Fund for Agricultural Investment and Development (AFAID)

Headquarters:	Expected to be in Khartoum, Sudan
Date Established:	Agreement reached at April 29, 1976 meeting of Arab Finance Ministers in Rabat, Morocco, to be implemented by treaty.
Administration:	Director not yet named; Board of Governors.
Membership:	Open to all Arab countries. Thirteen had joined as of July, 1976.
Capitalization:	KD 150 million ($525 million) authorized and expected to be subscribed.
Functions:	To promote agricultural development, with emphasis on food production, through investment in viable production and agri-business projects, infrastructure and other supporting activities. First priority expected to be given to the Sudan.
Terms:	Commercial and soft loans, grants, and equity participation.
Other:	AFESD is assisting in its formation and will later assist as needed.

Arab Fund for Economic and Social Development—(AFESD)

Headquarters:	Kuwait City, Kuwait
Address:	6th floor Kuwait Investment Bldg. Ahmad Al-Jabar Street P.O. Box 21923, Safat, Kuwait

Arab Fund for Economic and Social Development— (AFESD)—Continued

Telephone/Telex:	431870/2153
Date Established:	Agreement to establish Fund reached in May 1968; established in 1971: operations started February 1972.
Administration:	President: Saeb Jaroudi of Lebanon Director-General: Hachemi Larabi Board of Governors, with one Governor from each member country, meets at least once a year and sets general framework and policies of the Fund; full-time four member Board of Directors exercises all rights and functions authorized by the Board of Governors and is responsible for the Fund's operations.
Membership:	All twenty-one members of the Arab League, with distinction made between net contributing and net receiving countries.
Capital:	Increased from KD 102 million ($350 million) in 1971 to KD 400 million ($1.4 billion) in April 1975; KD 102 million paid in by February 1976 with the remainder to be paid over a period of 8 years starting in February 1977. The Fund can also borrow up to twice the amount of its capitalization. The main contributors are: Kuwait ($102 million), Saudi Arabia ($64 million), Libya ($41 million).
Functions:	To finance economic and social development projects and programs in the Arab countries on soft terms (varying according to project and risk involved) to governments, public and private authorities, and organizations. Loans not made to governments must have a government guarantee. No equity participation. It is intended that AFESD give priority to economic projects vital to overall Arab development and to inter-Arab projects fostering regional development (e.g., telecommunications and transportation involving two or more Arab countries) and to the poorest Arab nations. To promote the utilization of public and private funds for development of the Arab economy. AFESD has established a "Project Servicing and Promotion Unit" to coordinate the identification and promotion of national and regional investment projects requiring external financing, to serve as a link between Arab investors and entrepreneurs in Arab capital-importing countries, and to encourage the issuance of Arab government bonds by agreeing to invest in

them. The Fund has helped to mobilize Arab, industrialized country and international institution funds in co-financing and triangular projects in the Arab world.

To ensure the availability of technical expertise and aid in the various fields of economic development and investment of oil revenues.

To extend long-term loans at low interest rates for infrastructure projects in Arab countries.

To provide financial and technical assistance to national development banks.

Terms: Interest rates are 4% to the poorest Arab countries (Mauritania, Somalia, Sudan and both Yemens), and 6% to others, with maturities generally 15-25 years and 4-6 year grace periods.

Operations: Although established in 1971, the Fund has actually been providing financing only since 1973. From 1973 through 1975, it helped finance 18 projects, involving loans totalling over $1 billion, of which $321.5 million came from the Fund. Forty percent of the $127 million committed in 1974 was for projects in the least developed Arab countries and covered 60% of their total cost.

Typical loans include $22 million for the Talkha II fertilizer plant in Egypt, $6.8 million for the construction of underground petroleum storage tanks in Syria, $16.5 million for a microwave network and earth satellite station in Sudan and $11 million to Algeria and Morocco for a joint telecommunication network.

Other: The Fund also handles the $80 million special OAPEC oil facility set up in June 1974 to help non-oil producing Arab countries finance their oil imports (See Fund for Arab Oil Importing Countries).

Arab Fund for Technical Assistance to Arab and African Countries

Headquarters: Cairo, Egypt

Address: c/o Secretariat of League of Arab States
Midan Al Tahir

Arab Fund for Technical Assistance to Arab and African Countries—Continued

Date Established:	January, 1974
Administration:	Board under ex officio chairmanship of Secretary-General of League of Arab States (LAS), Mahmoud Riad Executive Secretary (ex officio)—LAS Assistant Deputy Director for Economic Affairs Executive Secretariat is provided by LAS Economic Division.
Membership:	Saudi Arabia, Libya, Algeria, UAE, Qatar, Egypt, Iraq, Sudan, Tunisia, Morocco, Yemen and Palestine Liberation Organization.
Capital:	$15 million originally, subsequently raised to $25 million, with UAE, Saudi Arabia, Iraq and Libya to provide 20% each. Probably not completely subscribed. Additional resources may be available from contributions by Arab or recipient countries, international or Arab institutions.
Functions:	To provide technical assistance in fields of economic, social and scientific development of Arab and African countries, including: 1. The preparation of comprehensive surveys of development projects in the African and Arab countries and help in finding means to implement them; 2. The provision of consulting services and experts between African and Arab countries; 3. The search for new fields for development cooperation between African and Arab countries; 4. The development of technical and administrative capabilities by providing fellowships for training and specialized education for nationals from Arab and African countries; 5. Coordination with Arab and African countries and institutions of activities in the fields of development and technical assistance.
Operations:	Started at end of May 1975 when group of experts began studying methods for cooperation between this Fund and other Arab and international financial institutions.

Arab International Bank (AIB)
(Formerly Arab International Bank for Trade and Development)

Headquarters:	Cairo, Egypt
Address:	35 Abdel Khalek Sarwat Street
Telephone:	919997—919107
Date Established:	October, 1972 (reorganized as AIB in 1974)
Administration:	Chairman: Dr. Abdel Moneim Kaissouni of Egypt Vice Chairmen: Mr. A. A. Saudi of Libya and Mr. H. A. Zaki of the UAE
Shareholders:	Libyan Arab Foreign Bank, Egypt, UAE — £ 12 million each; Qatar, Oman, private Abu Dhabi investors.
Capital:	Increased from £ 24 million to £ 40 million ($90 million) authorized and paid up in 1974.
Functions:	To promote investment projects which have been studied and proved viable for one or more Arab countries and which may also help the development and growth of Arab or international economic relations. To provide technical, financial, economic, managerial and legal studies for possible projects and the necessary procedures for their establishment, through an Arab Research and Consulting Centre. Commercial and medium-term lending and real estate investment.
Operations:	Participated in Alexandria Marine Works, a sugar plant and expansion of Nasr Auto Company in Egypt; real estate, housing, development and foreign trade companies in Sharjah, UAE; and tourism, housing, maritime transport, commercial and industrial fields, within and outside Egypt. As of June 30, 1975, the balance sheet totalled £ 273 million, with deposits and current accounts of £ 181 million, loans and advances £133 million, and investments £0.8 million.

Arab International Company for Hotels and Tourism

Headquarters:	Cairo, Egypt
Address:	c/o Arab International Bank, Cairo 35 Abdel Khalek Sarwat Street
Telephone:	919997, 919107
Date Established:	1975
Shareholders:	Arab International Bank, Kuwait Hotel Company, Abu Dhabi, Egyptian banks and Saudi Arabian investors.

Capital:	$20 million subscribed, including $4 milion from the Arab International Bank.
Functions:	To undertake the construction of hotels and other tourist projects.
Operations:	The Company's first project is construction and ownership of a 900 room luxury hotel on the Nile in the center of Cairo. A design contract and a contract with Hilton International for management of the hotel have both been signed.

Arab International Finance Company (ARINFI)

Headquarters:	Beirut, Lebanon
Address:[1]	P.O. Box 11-9500 St. Charles City Center
Telephone/Telex:[1]	369660/20328 LE
Date Established:	December 18, 1974
Administration:	Chairman of the Board and Chief Executive: Dr. Elias Saba of Lebanon General Manager: Mr. Peter Slocum
Shareholders:	Marine Midland Bank (U.S.) 25%; Tokai Bank (Japan) 12.5%; AK Holdings (Luxembourg) 12.5%; Kuwait International Investment Company, private and corporate Kuwaiti and Saudi Arabian investors 50%.
Capital:	Swiss francs 14 million ($5.2 million) paid up.
Functions:	To merge international financial expertise of developed country banks with Middle East resources to provide financial and investment facilities in Middle East, including investment management, investment banking underwritings, advisory services, money managing and money market activities.
Operations:	Became operational on January 1, 1975. Co-managers of several Eurobond underwritings and members of selling groups. Provided general corporate finance advice with respect to projects in Middle East and elsewhere.

[1] During Lebanon turmoil, ARINFI can be contacted at: Marine Midland Bank, London; 5 Lothburg, London EC2 England. Telephone/Telex: 016068321/851884605.

Arab International Insurance Company (AIIC)

Headquarters: Cairo, Egypt

Address: 7, Talaat Harb St., 7th floor

Telephone: 29141

Date Established: January, 1975

Administration: Dr. Don Layall, Senior Resident Advisor (British)
Mr. David Coowne, Technical Advisor (British)

Shareholders: Misr Insurance Co. (Egypt) 29%; Araba Investment Co. (Saudi Arabia) 10%; General Iraqi Insurance Organizations 6% and three Kuwaiti insurance companies 6%. Total—51%.

Commercial Union Assurance Co. (UK) 15%; AFIA (US), Allianz Versicherungs-A.F. (Germany), Assieurazioni Generali (Italy), Tokyo Marine Insurance Co. (Japan), Union des Assurances de Paris (French), and Zurich Versicherungs-Gesellschaft (Swiss)—5% each, and Willis, Sapeo and Tuman (UK) 4%. Total—49%.

Capital: $3 million (one-half paid up). Potential capacity is greater than indicated, however, because of arrangements for reinsurance with its foreign shareholders.

Functions: To offer all types of commercial insurance to Arab interests; to offer insurance protection principally for foreign companies, for industrial, commercial and other development projects in free zones and, possibly, reinsurance for joint ventures.

Operations: Operations started under the auspices of Misr Insurance Company while awaiting a Presidential Decree approving the AIIC.

Arab Investment Company (AIC)
(Arab Investment Fund)

Headquarters: Riyadh, Saudi Arabia

Address: P.O. Box 4009, Airport Road

Telephone/Telex: 011—67686//2001/ARABVST

Branches: Cairo—P.O. Box 139
Telephone/Telex: 908983//2303/TAIC
Khartoum—P.O. Box 2242
Telephone/Telex: 75571/2/4//624 ITAIC

Arab Investment Company (AIC)—Continued

Date Established:	July 16, 1974
Administration:	Chairman: Abdul Aziz Al-Rashid of Saudi Arabia; President and Managing Director: Ibrahim al-Ibrahim of Kuwait Board of Directors of not more than 10 members, elected by contributors on the basis of their shares.
Shareholders:	Saudi Arabia, Kuwait, Sudan, Egypt, Qatar, Abu Dhabi, Bahrain, Iraq, Jordan, Morocco, Algeria, Tunisia, Libya and Oman. Membership is open to other Arab countries.
Capital:	Initial authorized capital of $200 million, divided into two thousand shares (paid up $31 million) was raised to $255 million in March and to $300 million in Oct. 1975. Major shareholders, with shares of original capital, are: Abu Dhabi, Kuwait and Saudi Arabia (15% each), Iraq (12%), Egypt, Syria, Qatar and Sudan (8% each).
Functions:	To invest Arab public funds on commercial terms, developing the resources and carrying out productive projects in the fields of agriculture, industry, commerce, communications and services in the member states. Priority sectors will be agribusiness, metalworking and tourism development. AIC will invest only in member and non-member Arab countries. Investment will include equity as well as loans with preference for the former and for commercial rather than infrastructure investments. Activities will also include borrowing in the financial market, issue of bonds and acceptance of time deposits. AIC will also set up separate companies to establish new commercial projects and engage in all activities from production to marketing in the natural resources field, construction and real estate. AIC will also provide technical assistance to implement projects. The company may later be opened to private Arab investors wishing to repatriate capital. The AIC does not intend to invest more than 15% of its authorized capital and resources in any one project.
Terms:	Competitive rates
Operations:	AIC's first projects included 1) a 17% subscription to the Sudan £10 million ($28.7 million) capital of the Kenena Sugar Company to operate Sudan's $180

million sugar estate project, and 2) a 10% subscription to the $3 million capital of the Arab International Insurance Company. The AIC has also agreed to help finance the Arab Company for Mining and the Arab Company for the Development of Livestock Resources.

Other:	AIC funds are granted full freedom of movement and guaranteed against nationalization, expropriation and other non-commercial risk by member countries; profits, dividends and reserves are exempted from taxes, dues and tariffs in Saudi Arabia; projects in member countries will be exempted from taxation for a minimum of five years, beginning with the first year in which any such project realizes a profit.

Arab Investors Union

Headquarters:	Alexandria, Egypt
Address:	557, Avenue el Horreya
Telephone/Telex:	64735/4041
Administration:	Chairman: Mr. Mohmoud Ismail
Shareholders/Capital:	A consortium of Saudi Arabian and Kuwaiti banks and insurance companies, and businessmen from Jordan and the Arab Gulf states, whose financial resources have been estimated at $20 billion.
Functions:	To organize and set up industrial, agricultural and financial enterprises, mainly in Arab states, and to arrange financing for such enterprises.
Operations:	Alexandria Shipping and Navigation Company with capital of $50 million is Arab Investors Union's first enterprise. Companies presently being formed are: Food Products Ltd., Egypt; Iran and Steel Co. Ltd., New Hotels Co. Ltd., and Financial Investments Co. Ltd.

Arab Joint Investment Company
(UAE-Egypt Investment Company)

Headquarters:	Cairo,. Egypt
Address:	None as yet
Date Established:	October 15, 1975

Arab Joint Investment Company—Continued

Administration:	Officers have not yet been named. UAE is expected to provide chairman and Egypt vice chairman/manager.
Shareholders:	Egypt 50%, UAE 50%. Partners may dispose of their shares to a natural or juridic entity of the same nationality.
Capital:	$50 million, with Egypt's share in Egyptian pounds, the UAE's in dollars. Within one month of formation of Board of Directors, 25% of nominal value of the capital is to be paid in.
Functions:	To establish and finance development projects in Egypt and the UAE in fields of industry, agriculture, transport, energy, and housing and any other projects agreed upon by partners which have economic utility. Company may cooperate with other authorities or institutions conducting similar activities.
Terms:	Not yet available.
Operations:	Not yet in operation. Company will be authorized to operate for 50 years from date of publication of Republican decrees (12/21/75), with extension possible with appropriate approvals.

Arab Monetary Fund (AMF)

Headquarters:	Abu Dhabi
Date Established:	Statutes adopted in November 1975 at meeting of Governors of Central Banks, accord signed April 27, 1976 at the meeting of Arab League Finance Ministers in Rabat, Morocco.
Administration:	Council of Governors to be named by countries and Managing Council to be elected by the Governors and presided over by a Director General.
Membership:	Twenty-one members of the Arab League
Capital:	250 million "Arab Dinars" ($910 million) to be subscribed by members, plus yield on loans and borrowing from member countries and international and Arab multinational institutions. Major contributors: Saudi Arabia and Algeria—AD 38 million each; Egypt, Iraq and Kuwait—AD 25 million each.
Functions:	To develop closer economic and monetary cooperation among Arab countries, using Arab oil producers' surpluses to finance balance of payments deficits of other Arab countries. To assist countries with balance

	of payments problems by granting them short- to medium-term credit on favorable terms and by guaranteeing their borrowings from other member and non-member countries; to manage a multilateral clearing among Arab countries. To facilitate investment of the reserves of member countries and to promote inter-Arab and international trade. To achieve Arab monetary stability and create a new Arab unit of account, the "Arab Dinar" (1AD=3SDR). Loans granted by the AMF will be for a maximum period of seven years.
Terms:	Funds will be loaned on concessional terms for maximum of seven years. Exact rate(s) have not yet been determined.
Operations:	AMF will become operational when 55% of the subscriptions have been paid in.

Arab and Morgan Grenfell Finance Company

Headquarters:	London, England
Address:	St. Margaret's House 9 Ironmonger Lane, London EC2V 8EY
Telephone:	01–606–7491/886318
Date Established:	January 1974
Administration:	Chairman: Mr. Abdul-Majeed Shoman Jarbar Deputy Chairman: Mr. D.A.C. Douglas-Home Manager: Mr. Tarik Kassem Directors from Jordan and Iraq
Shareholders:	Morgan Grenfell Holdings (UK) 50%, Arab Bank Ltd. (Jordan) 45%, Arab Bank (Overseas) Ltd. (Switzerland) 5%.
Capital:	£1 million ($2 million) authorized; £200,000 paid up as of March 1974.
Functions:	To assist in promoting and financing projects mainly in the Middle East; to organize joint venture companies with Arab and international partners; to give foreign investors advice on Middle East business opportunities and to work with the local governments to facilitate such investment; to advise Middle Eastern investors; and to participate in syndicated Eurocurrency loans.
Operations:	Operations began in 1975 with Eurobond underwritings.

Arab Petroleum Investment Company (APIC)

Headquarters: Riyadh, Saudi Arabia

Address (Temporary): c/o Petromin, Damman, Saudi Arabia

Date Established: Draft agreement signed July 1974; establishment announced at OAPEC oil ministers' meeting in November 1975 after necessary ratifications.

Administration: Director General: Dr. Nur-al-din Faraj (Egyptian)
Managing Director: Mr. Jamal Jawa, Deputy Director of Petromin (Saudi Arabian).

Shareholders: UAE, Bahrain, Algeria, Egypt, Kuwait, Saudi Arabia, Syria, Iraq, Qatar and Libya.

Capital: KD 300 million (about $1,035 million) authorized; KD 100 million ($345 million) to be subscribed as follows: 17% each for Saudi Arabia, Kuwait, and U.A.E.; 15% for Libya; 10% each for Iraq and Qatar; 5% for Algeria; and 3% each for Egypt, Syria, and Bahrain. KD 50 million ($172 million) paid up as of April 23, 1975.

Functions: To assist in financing projects in the petroleum sector and ancillary industrial or infrastructure projects principally in the Arab World, for the benefit of member countries, in order to help them make the best use of their petroleum resources and invest their savings so as to strengthen their economic and financial capacity. Priority will be given to joint ventures between member countries. APIC will study and prepare project proposals, provide medium- and long-term loans, equity and portfolio investment, participate in underwriting and guaranteeing of securities in the petroleum sector.

Terms: Commercial Terms.

Arab Trust Company

Headquarters: Kuwait City, Kuwait

Address: P.O. Box 21374

Telephone/Telex: 442060/2628

Date Established: October, 1975

Administration:	Chairman: Mr. Tewfiq Abdulkarim Al-Nassar Deputy Chairman and Managing Director: Mr. Yousif Abdulaziz Al-Muzaini General Manager: Mr. Arnold Shipp
Shareholders:	Commercial Bank of Kuwait 25%; Mr. Yousif Abdulaziz Al-Muzaini 26%; other Kuwaiti businessmen 29%; Chase International Investment Co. (Chase Manhattan subsidiary) 10%; Samuel Montagu and Co. Ltd. (Midland Bank subsidiary) 10%.
Capital:	KD 1 million ($3.4 million).
Functions:	To be involved in investment management, international finance and bullion and foreign exchange dealing.
Operations:	Operations began January 1976.

Banco Arabe-Español (BAE)

Headquarters:	Madrid, Spain
Address:	Paseo de la Castellana 36/38, Madrid 1
Telephone/Telex:	225—9255/AREB 43754
Date Established:	April, 1975
Administration:	Chairman: Abdulla Saudi Director General: Luis Vano Martínez
Shareholders:	Kuwait Foreign Trading, Contracting and Investment Corporation and Libyan Arab Foreign Bank 30% each; Spanish Banks 40% (Instituto de Crédito Oficial 9.33%; Instituto Nacional de Industria 7.33%; Banco Español de Crédito, Banco Central, Banco Hispano-Americano, Banco de Bilboa, Banco Popular, Banco Exterior de España and Banco Atlántico—3.33% each)
Capital:	Pesetas 1.5 billion ($26.1 million) authorized and paid up.
Functions:	To channel Arab investments and capital funds into Spain; to promote trade between Arab countries and Spain; to increase Spain's technical contribution to Arab projects; to participate in international and Spanish syndicated loan operations and bond issues; to promote joint ventures.

Banque Franco-Algérienne
(Union Méditerranéenne de Banques, Paris)

Headquarters:	Paris, France
Address:	12, rue de Chaleaudun 75009 Paris '
Telex:	680524 (U.M.B. Paris)
Date Established:	September 12, 1975
Administration:	Director-General: Mr. Abdelmalek Teman General Manager: Mr. Jean L'Herbette Board of Directors consists of representatives of member banks and the Algerian Finance Ministry.
Shareholders:	Banque Nationale d'Algerie, Crédit Populaire d'Algérie 50%; 6 French banks 50%.
Capital:	Ffr 80 million ($18.6 million).
Functions:	To support actively the development of economic relationships between France and Algeria and with other Mediterranean countries; to offer a complete range of general banking services including international capital market operations, participation in international bond issues, capital venture assistance, lending and trade and foreign exchange operations.
Terms:	Commercial.

Banque Franco-Arab d'Investissements Internationaux (FRAB-BANK)

Headquarters:	Paris, France Branch in Beirut
Address:	29, Boulevard Haussmann 75008 Paris
Telephone:	553.05.69
Date Established:	1969
Administration:	President-Director-General: Mr. Jean Terray Vice Presidents: Mr. Paul Feurer, Mr. Al-Sagar Directors General: Mr. Farge, Mr. Khayata Administrators: Mr. Jean Richard, Mr. Al Rifai, Mr. Al Sulaiman, Mr. Al Kharafi.

Banque Franco-Arab d'Investissement Internationaux (FRAB-BANK) —Continued

Shareholders:	Arab financial institutions (predominantly Kuwaiti) 50%; Société Générale (France) 30%; Société Générale de Banque (Belgium), Banca Nazionale del Lavoro (Italy), Société de Banque Suisse (Switzerland) 6% each; Banco Urquijo (Spain) and private investor, 1% each.
Capital:	Authorized capital raised from Ffr 50 million to Ffr 70 million ($16 million) in 1973.
Functions:	To mobilize funds from Arab surplus countries to finance projects in Arab deficit countries and elsewhere.
Operations:	Participated in loans during 1974 to Gabon, Cuba, Venezuela, Senegal, Cameroon, South Korea, Spain, Italy and Norway.

Banque Inter-Continentale Arabe

Headquarters:	Paris, France
Address:	67 Avenue Franklin Roosevelt 75008 Paris
Telephone/Telex:	359.61.49/640340 BIAPA
Date Established:	April, 1975
Administration:	President-Director-General: Mr. Atrash
Shareholders:	Banque Extérieure d'Algerie 50%; Libyan Arab Foreign Bank 50%.
Capital:	Ffr 40 million ($9 million)
Functions:	To be involved in Euro-money market, to undertake medium- and long-term lending.

Banque d'Investissement et de Financement S.A.L. (INFI)

Headquarters:	Beirut, Lebanon
Address:	P.O. Box 135110 Fouad Chehab Avenue Quartier St. Nicholas
Telephone/Telex:	334114/INFI 21185 LE
Date Established:	1974

Administration:	Deputy General Manager: Fouad Abu Saleh
Shareholders:	Banque Audi (Lebanon) 35%, Arab individuals 25%; Caisse Centrale de Banque Populaire (France), Groupe Renault (France), Hambros Bank (UK), Mitsui Bank, Nomura Securities (Japan) 8% each.
Capital:	Lebanese £15 million ($6.4 million)
Functions:	To provide medium- and long-term financing for development projects in the Middle East.
Terms:	Interest has ranged from 10-12% on 2-8 year loans.

Banque Nationale pour le Développement Économique (BNDE)

Headquarters:	Rabat, Morocco
Address:	P.O. Box 407 Place des Alaouites
Telephone:	26441–3
Date Established:	1959
Administration:	Chairman & General Manager: Mustapha Faris Vice-Chairman: Ahmed Bennani
Shareholders:	Moroccan Government 37%, Moroccan Banks 11.5%; foreign institutions, International Finance Corp. 17% each; private Moroccan investors 17.5%.
Capital:	MD 30 million ($7.4 million) authorized and paid up as of 1974. Moroccan Government MD 13 million; IFC MD 7.5 million; Moroccan banks and private investors MD 3.9 million: Morgan Guaranty MD 1 million: other foreign institutions MD 5.1 million.
Functions:	To provide financing for development projects in Morocco.

Compagnie Arabe et Internationale d'Investissement (CAII)

Headquarters:	Luxembourg Ville, Luxembourg
Address:	84 Grande Rue
Date Established:	January, 1973

Compagnie Arabe et Internationale d'Investissement (CAII)—Continued

Administration:	Chairman: Abdel-Latif Al-Hamad Managing Director: Mr. Yves Truffert
Shareholders:	Kuwait Investment Co. SAK; Bank of Kuwait and the Middle East KSC: Abu Dhabi; Banque du Liban et d' Outre-mer; Saudi National Commercial Bank; Banque National de Tunisie—50%. Société Financière Européenne, Luxembourg; Banque Nationale de Paris: Banque Nationale de Paris Intercontinentale; Banco Central SA; Union de Banques Suisses; Oesterreichische Landerbank; Union Bancaire pour le Commèrce et l'Industrie; Canadian Imperial Bank of Commerce—50%.
Capital:	$30 million authorized.
Functions:	Acts as holding company for Banque Arabe et Internationale d'Investissement (BAII). Headquarters: 11 Place Vendôme, Paris France 75001. Telephone: 260–34–01, Telex: ABINTER 23823 Chairman and Managing Director: Mr. Yves Truffert Capital: Ffr 50 million ($12 million) in 1973. Functions: To manage loans to developing countries, act as project advisor, handle private placements in Eurobonds. Operations: Managed Arab government-backed loans to Sudan.

Compagnie d'Investissement Irano-Française (COMINIF)

Headquarters:	Tehran, Iran
Address:	Sherkat Melli Sakhteman Bldg., Koucheh Saiid, Elizabeth Blvd.
Telephone/Telex:	65 95 48/215096 SOGE IR
Date Established:	October 20, 1974
Administration:	Chairman: Mr. H. E. Mehdi Samii Vice Chairman: Mr. Louis Buttay Managing Director: Mr. Ahmad Taghavi
Shareholders:	Société Générale (France) 40%; Industrial and Mining Development Bank of Iran 25%; Industrial

Credit Bank (Iran) 20%: Agricultural Development Bank of Iran 15%.

unctions: To promote industrial and agricultural projects in Iran for Iranian and French investors and to explore possibilities for Iranian investment in France. Equity participation; COMINIF does not make loans.

'perations: Equity participation in Iran Special Steel Company (with participation of French Crêusot-Loire Enterprises), Alborz Electric Industries Co. in Tehran and two hotels. All companies are Iranian with French participation.

Development and Investment Bank of Iran

Headquarters: Tehran, Iran

Address: 16 Nasser Street
Sepanhbod Zahedi Avenue

Telephone/Telex: 836799/9512696

Date Established: 1973

Administration: Chairman and Managing Director: Mr. G. Reza Moghaddan
Assistant Managing Directors: Mr. Youssef Rad, Mr. Firouz Afrouz

Shareholders: Individual Iranian nationals—80%; Williams & Glyn's Bank (UK); Long-term Credit Bank of Japan; Mellon Bank International, Pittsburgh (US); First Boston AG Zurich (Switzerland); Dressners Bank (Germany)—20%.

Capital: IR 1,813 million ($26.8 million), in 1975.

Functions: To mobilize local and foreign capital for investment in productive operations in Iran, primarily in industry and mining; to provide medium- and long-term financing for fixed capital installation, and working capital for projects in the private sector of the Iranian economy.

Terms: Commercial.

Dubai Islamic Bank

Headquarters:	Dubai, UAE
Address:	P.O. Box 1080 Deira
Telephone/Telex:	85536/7/8/9//5889 ISLAMIC DB
Date Established:	September 15, 1975
Administration:	Founder: Saeed Ahmed Lootah Advisor: Dr. Issa Abdo Manager of Foreign Operations: Mr. S. Noor
Membership:	Private investors from Dubai and Saudi Arabia
Capital:	50 million dirhams ($12.5 million)
Functions:	To act as a merchant bank with commercial and investment functions, latter limited to project financing. Bank must be majority shareholder when financing private sector projects.
Terms:	Interest free; costs to be covered by "handling fee", depositors will share in bank's investment returns instead of receiving interest.
Operations:	Almost all investments to date have been in real estate development, but industrial and agricultural projects are under consideration.

Egypt-Kuwait Investment Company

Headquarters:	Cairo, Egypt
Address:	34, Kasr El Nil Street
Telephone:	52312/919967/915735
Date Established:	August, 1974
Administration:	Chairman of the Board: S. Zein Rabbatt Administrative Assistant: Mrs. Fatma el Zahraa
Shareholders:	Kuwait Foreign Trading, Contracting and Investment Co. $17.5 million; Deposit and Investment Insurance Fund (Egypt) $6.5 million: Al Shark Insurance Co. (Egypt) $1 million.
Capital:	$25 million authorized

Egypt-Kuwait Investment Company—Continued

Functions:	To invest in industrial concerns, transport and real estate. Company can enter into partnerships, provide local financing, and carry out activities within or outside Egypt.
Terms:	Commercial
Operations:	The company is currently making feasibility studies and researches of the local market for possible fields for investment. It is currently concluding truck and building material purchases from the Government, mainly for resale.

First Arabian Corporation

Headquarters:	Paris, France
Address:	c/o Banque Pommier 86, Rue de Çoupcelles Paris 8
Telephone/Telex:	227–9504/650446 POMMIER PARIS
Branch:	Jidda: Queens Building, 21st floor P.O. Box 1312, Jidda, Saudi Arabia Telephone/Telex: 34561/54704//40235 SJ Offices in Riyadh, Kuwait, Cairo, New York
Date Established:	1974
Administration:	Manager: Mr. Ghassan Shaker Vice President: Mr. John G. Ives (Jidda manager)
Shareholders:	All-Arab private bank.
Capital:	L£1 million ($0.42 million)
Functions:	To bring Western technology to the Middle East in exchange for Middle East funds by: 1. taking an equity interest in projects; 2. providing long-term loans or equity financing for major international companies. It also underwrites Eurocurrency and Arab currency issues for placement with Middle Eastern investors, and offers counseling on Middle Eastern marketing and financing strategies.
Terms:	Commercial.

Fund for Arab Oil Importing Countries

(OAPEC Special Account) (OAPEC Oil Facility)
(Special Fund for Arab Non-Oil Producers)

Headquarters:	Kuwait
Address:	c/o Arab Fund for Economic and Social Development, Mr. Nezhat al-Tayib, Director of Financial Department, 6th floor, Kuwait Investment Bldg., Ahmad al-Jabar Street. P. O. Box 21923 Safat
Telephone/Telex:	431870/2153.
Date Established:	1974
Administration:	Administered by Arab Fund for Economic and Social Development jointly with the Secretary-General of OAPEC.
Membership:	The 10 members of the Organization of Arab Petroleum Exporting Countries (OAPEC).
Capital:	$80 million in 1974[1]; in May, 1975 the Ministers of OAPEC agreed to renew the Special Account, and it appears it will become a continuing fund.
Functions:	To provide emergency assistance to non-oil producing Arab countries in overcoming their balance of payments difficulties caused by the increased cost of oil. Assistance intended primarily for the most seriously affected countries. [2]
Terms:	Interest-free, 20 year loans with 10 year grace period.
Operations:	$79 million provided in 1974[1] as follows: Sudan ($37.0 million), Mauritania ($4.6 million), Morocco ($8.1 million), Somalia ($7.2 million), North Yemen ($10.9 million) and South Yemen ($11.2 million).

Gulf International Bank

Headquarters:	Manama, Bahrain
Address:	c/o Bahrain Monetary Agency P.O. Box 27, Manama
Telephone:	714872

[1] There was a slight shortfall between amount allocated and amount actually contributed.
[2] North Yemen, South Yemen, Mauritania, Somalia, and the Sudan.

Gulf International Bank—Continued

Date Established:	November 13, 1975
Administration:	Chairman: Mr. Ali Khalifa-al-Sabah, Under Secretary, Kuwait Ministry of Finance. Board of 12 Directors, 2 from each country, to manage the Bank.
Shareholders:	Saudi Arabia, Kuwait, UAE, Oman, Qatar and Bahrain–with equal shares. Up to 49% of each state's shares may be made available to individuals and companies from that state.
Capital:	40 million Bahraini dinars ($101 million); 24 million BD paid up.
Functions:	To undertake, outside the member states, all banking and commercial services for the banks of the member states or for others, or jointly with them. To grant loans, deal in securities and participate directly in investment ventures. To advise member countries on loan requests from other countries and, increasingly, to participate in such loans. The Bank may own or establish foreign banks or take shares in existing banks in addition to undertaking other investments.
Operations:	None to date.

Hexalon

Headquarters:	Rotterdam, Netherlands
Address:	60-68 Voompjes, Rotterdam 3001
Date Established:	February, 1975
Administration:	American adviser: Ackerman & Co., Atlanta, Georgia
Shareholders:	Blauwhoed BV. (Netherlands): pension funds of Unilever-Holland and Dutch Engineering; Commercial Union Assurance Co., Ltd. (UK): UBAF Ltd. (London-based subsidiary of UBAF).
Capital:	124 million Dutch Guilders ($49 million).
Functions:	Real estate investment consortium to invest in fully rented commercial properties in the southwestern and southeastern U.S.

Industrial and Mining Development Bank of Iran

Headquarters:	Tehran, Iran
Address:	P.O. Box 1801 133 Khiaban Hefez
Telephone/Telex:	89 32 71—79/21286 IMDBI IR
Date Established:	October 14, 1959
Administration:	Chairman: Jaffar Sharif Emami Managing Director: Mr. Abdol Gasem Kheradjou Deputy Managing Director: Mr. Iraj Azarm Senior Asst. Managing Director: Mr. M. Bagher Baradar
Shareholders:	Iranian individuals and institutions: 86% 22 foreign banks and companies: 14%
Capital:	As of March 20, 1975, authorized capital IR 7 billion ($100 million). Resources for lending include funds provided by the Government of Iran and the IBRD.
Functions:	To finance industrial and commercial enterprises in Iran by extension of term loans (over 1 yr.) and by equity participation.
Terms:	Interest rates generally 1–2% below rates charged by commercial banks.
Operations:	In year ending March 20, 1975 the Bank approved financing totalling $468 million in the form of loans ($358 million), investments, government equity fund investments, bank guarantees and underwritings.

Inter-Arab Investment Guarantee Corporation (IAIGC)

Headquarters:	Kuwait City, Kuwait
Address:	18 Al-Istiqlal Street P.O. Box 23568 Safat
Telephone/Telex:	548369/2562
Date Established:	1971. First meeting of IAIGC Council took place in May 1974, but operations did not start until April 1975.
Administration:	A private corporation. Director-General: Dr. Abdulaziz Al Mathari, a Tunisian economist and banker.

A Council composed of one representative from each signatory country is the governing board.

Supervisory Committee of experts of different nationalities oversees activities of the corporation.

Shareholders: All members of Arab League except Oman and South Yemen.

Capital: Initial capital: KD 10 million ($34 million), paid in capital was KD 1.5 million as of July 1975. Minimum subscription is 5% per country; some wealthy members subscribe 10% each. Profits will be used to build up reserves. Total coverage cannot exceed five times corporation capital plus reserves.

Functions: To guarantee Arab investors against losses resulting from expropriation, nationalization and other non-commercial risks on investments in another Arab country as a means of promoting private capital flows between member countries. The investment and its insurance by the corporation must have prior approval of the host government. Non-Arab investment in a predominantly Arab-owned enterprise meeting these conditions can also be covered, e.g. non-Arab with a 10% interest in a joint venture with an insured Arab company would receive 10% of the compensation awarded for the venture.

To promote research relating to identification of investment opportunities and conditions for investment in member countries.

Both direct and portfolio investments are eligible for insurance. Special priority is to be given to investments which promote Arab economic integration and co-operation and those which build up productive capacities of the host country.

No single operation may exceed 10% of capital plus reserves (20% for Arab joint ventures).

Terms: Low initial premium (.4%–.5%).

Operations: In August 1975, IAIGC guaranteed its first loan: a Kuwait Foreign Trading, Contracting and Investment Co. loan of KD 1 million ($3.4 million) to Sudan for textile production.

International Financial Advisors

Headquarters:	Kuwait City, Kuwait
Address:	P.O. Box 4694 Safat, Al Salem Street
Telephone/Telex:	442111–2/IFA 2385 KT
Date Established:	1974
Administration:	Chairman: Mr. Fawzi Sultan Deputy Chairman: Mr. Abdul Aziz Saleh General Manager: Mr. Euan R. MacDonald
Membership:	Private Kuwait individuals (55%) Robert Fleming & Co. Ltd. (UK) (15%) Banque Worms et Cie (France) (15%) William Kent & Co. (U.S.) (15%)
Capital:	KD 500,000 ($1.7 million)
Functions:	To provide local merchant banking services for government and the private sector in Kuwait and the Middle East area, and to help outside interests wishing to invest capital or expertise in the Arab world.

Iran Overseas Investment Bank (IOIB) (IRANVEST)

(Formerly International Bank)

Headquarters:	London, England
Address:	120 Moorgate, London EC 2
Telephone/Telex:	01–638–4831/887285
Date Established:	September, 1973
Administration:	Managing Director: Mr. Darioush Oskoui of Iran Deputy Managing Director: Mr. Jeffrey Bell Secretary of Bank: Mr. L. Coles of UK Board of Directors representing all shareholders.
Shareholders:	Bank Melli (Iran) and Industrial and Mining Development Bank of Iran–50%; Barclays Bank International, Midland Bank Ltd. (UK); Bank of America, Manufacturers Hanover (U.S.); Bank of Tokyo Ltd., Industrial Bank of Japan (Japan); Deutsche Bank A. G. (Germany); Societe Generale (France)–50%.
Capital:	Raised from £5 million to £10 million ($22 million) in June 1975, with most of funds coming from Iranian sources.

Functions: To attract foreign capital to Iran for investment purposes. To assist the Government of Iran (GOI) and its agencies in obtaining funds in the international market; to serve as a catalyst in arranging technical and financial cooperation between business firms in Europe, U.S. and Japan on the one hand and Iranian sector on the other; to help the GOI invest its funds abroad; to participate in syndicated loans and bond issues to countries throughout the world.

Islamic Development Bank

Headquarters: Jidda, Saudi Arabia

Address: c/o Saudi Arabian Monetary Agency
P.O. Box 394
Airport Road

Telephone: 33994

Date Established: Decision at the Second Conference of the Finance Ministers of the Islamic States, in Jidda 1974, became effective on April 23, 1975 when notification of ratification had committed 615 million Islamic dinars to the Bank.

Administration: Chairman of Board of Governors: Shaikh Mohammed Aba Al-Khayl, Saudi Minister of Finance.
President and Managing Director: Dr. Ahmed Ali Board of Governors to set broad policy and Board of 10 Executive Directors responsible for directing general operations. Permanent membership in Executive Directorate includes Saudi Arabia, Libya, UAE and Kuwait. Temporary Executive Directors as of Aug. 1975 were Algeria, Egypt, Guinea, Malaysia, Niger and Pakistan.

Membership: 27 Islamic states

Capital: Authorized capital: 2 billion Islamic dinars (1 ID=1 SDR)–$2.4 billion. Initial capital: ID 750 million. Major contributors with initial capital committed are Saudi Arabia (ID 200 million), Libya (ID 125 million), UAE (ID 111 million) and Kuwait (ID 100 million).[1]

[1] All members (Algeria, Bahrain, Bangladesh, Indonesia, Jordan, Kuwait, Malaysia, Mauritania, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Sudan, Turkey, UAE, Syria, Afghanistan, Niger, Egypt, Lebanon, Guinea, Somalia, Tunisia, Mali and Senegal) except Yemen had, as of August 1975, deposited 20% of their contributions.

Functions: To support the economic development and social progress of the Islamic countries and communities in accordance with principles of Islamic Law by:

1. Equity participation in productive projects and enterprises in the member countries.
2. Investing in infrastructure projects in the member states.
3. Granting loans to both public and private sectors in the member states to finance the productive projects and programs.
4. Accepting deposits and raising funds by suitable means.
5. Assisting in promotion of foreign trade among the member states, particularly in producer goods.
6. Investing its idle funds in suitable ways.
7. Providing technical assistance and training facilities to those engaged in the development field.
8. Carrying out research required for conducting economic, financial and banking activities in the Islamic states, as well as cooperating with all similar international organizations and institutions in accordance with the provision of the Islamic Law (Shariah).

Most of the funds are likely to go to non-Arab countries because substantial funds are available to Arab countries from other sources.

Functions: Loans to be interest-free, since Islamic religion prohibits charging interest on loans, but may carry service fee, possibly 2–3%. Loans will require member government guarantee.

Operations: Began after October 1975. Initial operations will consist of co-financing of projects approved by other Moslem financial institutions.

Kuwait Financial Centre SAK

Headquarters: Kuwait City, Kuwait

Address: Mubarak Al Kabeer St.
P.O. Box 23444, Safat

Telephone/Telex: 415791/412131–2/MARKAZ 2477 KWT

Kuwait Financial Centre SAK—Continued

Date Established:	August 1974
Administration:	Chairman: Shaikh Ali al-Salem al Sabah Deputy Chairman: Mr. Abdul-Rahman Al-Ghunaim General Manager: Mr. Vartkes M. Alahaidoyan
Shareholders:	Kuwaiti businessmen 78.6%. International Bank of Washington 21.4%.
Capital:	KD 3.5 million ($12 million).
Functions:	To provide import-export financing, arrange banking facilities inside and outside Kuwait; to assist in underwriting and placing bond issues; to advise and arrange investment in medium- and long-term securities: to provide consulting services for project appraisal for potential Kuwaiti investors.
Terms:	Commercial.

Kuwait International Finance Company SAK

Headquarters:	Kuwait City, Kuwait
Address:	Hussain Makki Juma Bldg., 4th floor Ali Salem Street P.O. Box 23792 Safat
Telephone/Telex:	416809/416819/416821//2569 CURRENCY KWT
Date Established:	December 1, 1974.
Administration:	Chairman: Mr. Faisal Saud al-Fulaij Vice Chairman and General Manager: Mr. Sayed Mohamad Akbar
Membership:	Private Kuwaiti and foreign investors (33%); Bank of Credit and Commerce International Luxembourg (46%); W. J. Towel & Co. (21%).
Capital:	KD 1 million ($3.4 million).
Functions:	To provide local business and Middle East private institutions with development finance, including portfolio management and financial consulting.
Operations:	Operations began in late 1975.

Kuwait Pacific Finance Company Ltd.

Headquarters:	Hong Kong
Address:	1405–1408 Hutchison House, 10 Harcourt Road
Telephone/Telex:	5/240041/83450 HX
Date Established:	April 25, 1975
Administration:	Chairman and Managing Director: Mr. Bader Ali al-Dauoud General Manager: Mr. Keisuke Yamada Deputy General Manager: Mr. B. D. Bruce; 9 directors: 3 each from Kuwait and Japan, 1 each from Australia, Brazil and Canada.
Shareholders:	Kuwait Investment Company (35%), Industrial Bank of Japan (32%), Yamaichi Securities Company of Japan (3%), Bank of New South Wales, Australia (10%), Canadian Imperial Bank of Commerce (10%), and Banco do Brazil (10%).
Capital:	HK $25 million (US $5 million) authorized and paid up.
Functions:	To channel funds from Kuwait and other Middle Eastern oil-producing countries into investment projects in Southeast Asia, Australasia, Japan, Canada and Brazil. To provide financial services of merchant banking including: 1. placement and underwriting of securities; 2. management and syndication of medium- and long-term Eurocurrency loans; 3. private placements; 4. investment and loan advisory services; 5. money market operations.

Misr Iran Development Bank (MIDB)
(Irano-Egypt Bank)

Headquarters:	Cairo, Egypt
Address:	8 Adly Street
Telephone:	43137/971268
Date Established:	May 1975

Misr Iran Development Bank (MIDB)—Continued

Administration: Chairman: Dr. Hossein Kazem Zadah (Iranian)
Vice Chairman and Managing Director:
Mr. Fuoad Sultan (Egyptian)
General Manager: Mr. Shahrohb Zovosh (Iranian)

Shareholders: Egypt and Iran

Capital: $20 million authorized; divided equally between Egypt and Iran.

Functions: To carry out feasibility studies and provide medium and long-term financing for sound projects of private companies to establish, expand or modernize agricultural, industrial and commercial enterprises in Iran and Egypt. To assist foreign investors in investing in both countries.

Terms: Medium- and long-term loans at fixed market rates. As of Dec. 10, 1975, 10.5% on long-term loans to foreign investors.

Operations: MIDB is undertaking some projects in tourism and agriculture in Egypt and providing consulting services for foreign investors starting new projects in Egypt.

OPEC Special Fund

Headquarters (tentative): Vienna, Austria

Address: c/o Organization of Petroleum Exporting Countries.
Dr. Karl Luegerring 10
1010 Vienna

Date Established: Decided upon at OPEC Finance Ministers' meeting November 1975; agreement signed January 1976, awaiting ratification by the requisite number of countries.

Administration: A Governing Committee, composed of representatives of the donor countries, is to set policy for use of the Fund's resources and appoint a Director General to organize the work of the Committee and supervise the administration of loans. Loans are to be administered by national executing agencies of the donor countries or by international development agencies.

Membership: All OPEC members except Ecuador and Indonesia have pledged to contribute.

Capital: $800 million pledged for 1976 as follows (amounts in $ million): Iran—210; Venezuela—112; Saudi Arabia—202; Kuwait—72; Nigeria—52; Iraq—40; Libya—40; UAE—33; Algeria—20; Qatar—18; and Gabon—1.

Functions:
1. To provide concessional assistance to non-OPEC developing countries in order to reinforce financial cooperation between OPEC members and these countries.
2. To provide balance of payments support and financing for development projects and programs.
3. To contribute to international development agencies whose beneficiaries are developing countries.

Terms: Non-interest bearing, long term loans.

Operations: Not yet in operation. However, at their May 11, 1976 meeting the OPEC Finance Ministers provisionally constituted themselves as S.F.'s governing committee to authorize the allocation of $400 million from its resources to the projected International Fund for Agricultural Development (IFAD), provided that the developing countries contribute at least $600 million.

PEC Israel Economic Corporation

Headquarters: New York, N.Y., U.S.A.

Address: 511 Fifth Avenue
New York, N.Y. 10017

Telephone: 212-687-2400

Date Established: 1926

Administration: Chairman of Board of Directors: Mr. Joseph Meyerhoff
Vice Chairmen: Mr. Raphael Recanati,
Mr. Herbert M. Singer
President: Mr. Albert Levinson

Shareholders: 84% of stock is held by IDB (Israel Discount Bank) Bankholding Corporation Ltd., the majority of the balance by private U.S. investors.

Capital: $21.5 million.

Functions: To organize, finance and operate business enterprises in Israel by providing loan and equity financing. These enterprises include real estate development, manufacturing, power and communications projects.

PEC Israel Economic Corporation—Continued

Terms: Commercial.

Operations: In 1975 commercial and residential real estate development was PEC's principal investment activity. PEC's main equity investment is CLAL (Israel) Ltd. which is involved in industry, construction, finance, trade and services. PEC Israel Economic Corporation is a subsidiary of IDB Bankholding, 27–29 Yehuda Haleve Street, Tel Aviv, Israel. Telephone/Telex: 54545/92233838.

Saudi-Egyptian Industrial Investment Company

Headquarters: Cairo, Egypt

Address: Office not set up as of March 1976

Date Established: 1975

Shareholders: Saudi Arabia and Egypt

Capital: $100 million divided equally between the two countries, with Egypt's share in Egyptian pounds, Saudi Arabia's in U.S. dollars. Saudi Arabia will make another $300 million available to the company in loans.

Functions: To promote industrial projects in Egypt to be carried out either by Egypt alone or by Egypt in collaboration with Arab or international parties.

Operations: Not in operation as of March 1976.

Saudi-Egyptian Reconstruction Company

Headquarters: Cairo, Egypt

Address: Office not set up as of March 1976

Date Established: 1975

Shareholders: Saudi Arabia and Egypt

Capital: $50 million divided equally between the two countries, Egypt's share in Egyptian pounds, Saudi Arabia's in U.S. dollars. Saudi Arabia has promised an additional $100 million in loans.

Functions: To invest in Egyptian real estate projects, especially in the Suez area.

Operations: Not in operation as of March 1976.

Saudi International Bank
(Al-Bank Al-Saudi Al-Alami Ltd.)

Headquarters:	London, UK
Address:	99 Bishops Gate EC2M 3TB
Telephone/Telex:	London 6382323//8812261/2—For Treasury and foreign exchange matters; Telephone: London 6285-791/5
Date Established:	August 22, 1975
Administration:	Chairman: Shaikh Mohammed Aba Al-Khayl, Saudi Arabian Minister of Finance. Executive Director and Chief Executive Officer: Mr. Edgar C. Felton, Vice President of Morgan Guaranty International Finance Corporation. Morgan Guaranty will provide management services under a technical assistance agreement with the bank.
Shareholders:	Saudi Arabian Monetary Agency (SAMA) 50%; National Commercial Bank and Riyadh Bank Ltd. (Saudi) 2.5% each; Morgan Guaranty Trust Co. (US) 20%; Bank of Tokyo Ltd., Banque Nationale de Paris, Deutsche Bank A.G., National Westminister Bank Ltd., and Union Bank of Switzerland 5% each.
Capital:	£25 million ($55 million) authorized.
Functions:	To conduct a broad range of merchant banking activities with the objective of 1) broadening Saudi Arabia's economic and financial interchange with other countries and enabling it to gain direct experience in international financial markets, and 2) of training Saudis in all aspects of international banking. Activities may include foreign exchange and money market operations, short- and medium-term lending, and arrangement of long-term finance through private placements.
Operations:	Bank began operations March 10, 1976.

Solidarity Fund for Economic & Social Development in Non-Aligned Countries

Headquarters:	Expected to be in Kuwait
Date Established:	Under negotiation as of April 1976. To be considered at Non-Aligned Ministerial Meeting scheduled for August, 1976.

Solidarity Fund for Economic & Social Development in Non-Aligned Countries—Continued

Membership: Open to non-aligned countries, and their organizations and institutions, upon approval of the respective governments.

Capital (proposed): SDR 20 million ($24 million), with additional borrowing authority.

Functions (proposed): To finance economic and social development projects; promote investment and provide technical assistance, all with special emphasis on, and priority to, promotion of industrialization. To lend as last resort, when financing is not available on reasonable terms from other sources. No equity participation.

Terms (proposed): Based on project considerations and beneficiary country circumstances. May include soft terms.

Special Arab Fund for Africa (SAFA)

(Arab Fund for the Provision of Loans to African Countries) (AFPLAC)

Headquarters: Cairo, Egypt

Address: c/o League of Arab States
Tahrir Square

Telephone: 811890

Date Established: January, 1974

Administration: General Secretariat of the League of Arab States (LAS), directly supervised by the Secretary-General, acts as agent for the Fund.

Membership: Algeria, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, UAE.

Capital: $200 million authorized, $185 million committed in 1974, $185 million committed for 1975. Contributors: Saudi Arabia ($40 million), Libya, Iraq, Kuwait ($30 million each), Alegria and UAE ($20 million each), Qatar ($10 million) and Oman ($5 million).[1]

Functions: To support the purchase of oil by African countries and help alleviate oil-related balance of payments

[1] All countries paid their contributions to the LAS except Algeria, which made its contribution available through the African Development Bank.

difficulties; develop oil resources in Africa; compensate African countries which have broken off relations with Israel for the economic loss incurred; and meet drought-related needs. Operations limited to non-Arab African countries.

Terms: Original terms of no interest, one percent commission, 3-year grace period and 8-year repayment now softened to 10-year grace period and 25-year repayment period, with commission still 1%. Repayment to be made to the Arab Bank for Economic Development in Africa, but repayment is not expected to be sought in most cases.

Operations: Recipient countries and amounts for each were determined by the Organization for African Unity in cooperation with the LAS. The largest recipients in 1974 were Ethiopia, Tanzania, Zambia, Zaire, and Uganda, with allocations of $11–14 million each.

Other: As of April 1976 SAFA will be administered by the Arab Bank for Economic Development in Africa.

Sudanese-Kuwaiti Investment Company

Headquarters: Khartoum, Sudan

Address: Al-Nile Street
P.O. Box 1745

Telephone/Telex: 78470/77193//INMMAA 603

Date Established: July, 1972

Administration: Chairman: Mr. Abdulwahab A. al-Tammar
General Manager: Mr. Jely Hamed

Shareholders: Kuwait Foreign Trading, Contracting & Investment Co. 50%; Al-Dawlat Trading Establishment 50%.

Capital: 1 million Sudanese pounds ($2.9 million).

Functions: To act as holding company for several investments. To undertake investments, probably equity only, and participate in joint ventures with western firms willing to take a substantial equity position.

Union de Banques Arabes et Françaises (UBAF)

Headquarters:	Paris, France
Address:	4, rue Ancelle, 92200 Neuilly-sur-Seine
Telephone/Telex:	717.72.42 610.334 and 630.687: UBAF NLLSN
Date Established:	1969
Administration:	President-Director-General: Dr. Mohammed Abu Shadi (President of National Bank of Egypt). Vice President: Mr. Maurice Schlogel Director-General: Mr. Jacques Francois Merie Administrator: Mr. Jean Sain Geours
Shareholders:	3 French banks—40%; 26 Arab banks—60%.
Capital:	Ffr 110 million ($26 million) authorized as of 1974, fully paid up.
Functions:	To carry on commercial banking functions and provide short-term financing: to undertake some medium- and long-term lending, underwriting and syndication banking, with the aim of participating in the development of the associated Arab countries and contributing to the development of financial, commercial, industrial and economic relations between the Arab countries on the one hand and Europe, particularly France, and the international financial markets on the other.
Operations:	In 1974, participated in loans to Gabon, Sudan, Adela Investment Co., American and French utilities, etc. Assets/Liabilities totalled Ffr 8.2 billion ($1.9 billion) at the end of 1975, including Ffr 97 million in portfolio securities and participations and Ffr 30 million in bonds.
Affiliates and Associates:	U.B.A.E. Italia: It. lira 5 billion ($7 million) (UBAF 51%, Italian banks 49%), P.O. Box 548, Piazza Venezia 11–00187, Rome, Italy; UBAF Ltd.: £5 million ($11 million) (UBAF 50%, Midland Bank 25%, Libyan Arab Foreign Bank 25%). P.O. Box 169, Commercial Union Bldg. St. Helens, 1, Undershaft, London EC3P3HT, England; U.B.A.E. Luxembourg, Frankfort: DM 30 million ($12 million) (UBAF 33.3%, Arab Bank Ltd. 33.3%, German banks 33.3%): 3 Blvd. Royal, P.O. Box 115, Luxembourg Ville, Luxembourg; UBAN-Arab Japanese Finance Ltd.: (UBAF 20%, 9 Arab banks 40%, 4 Japanese banks 32%, Japanese security company 8%), Hong Kong;

UBAF-Arab American Bank: (UBAF 12%, 4 American banks 20%, Arab & multinational banks 68%); initial capital $25 million. Expected to open in spring of 1976, specializing in wholesale banking and international transactions, 345 Park Avenue, New York, N.Y. 10012; Telephone/Telex: 212–826–1120/234589.

Index by Location of Headquarters

Page

Bahrain

Gulf International Bank (Manama) 32

Brazil

Arab-Brazilian Investment Company (Rio de Janeiro) 10

Egypt

Arab-African Bank (Cairo) 7
Arab Fund for Technical Assistance to Arab and African Countries (Cairo) 14
Arab International Bank (Cairo) 16
Arab International Company for Hotels and Tourism (Cairo) 16
Arab International Insurance Company (Cairo) 18
Arab Investors Union (Alexandria) 20
Arab Joint Investment Company (Cairo) 20
Egypt-Kuwait Investment Company (Cairo) 30
Misr Iran Development Bank (Cairo) 40
Saudi-Egyptian Industrial Investment Company (Cairo) 43
Saudi-Egyptian Reconstruction Company (Cairo) 43
Special Arab Fund for Africa (Cairo) 45

France

Banque Franco-Algérienne (Paris) 25
Banque Franco-Arab d'Investissements Internationaux (Paris) 25
Banque Inter-Continentale Arab (Paris) 26
First Arabian Corporation (Paris) 31
Union de Banques Arabes et Françaises (Paris) 47

Hong Kong

Kuwait Pacific Finance Company 40

Iran

Compagnie d'Investissement Irano-Française (Tehran) 28
Development and Investment Bank of Iran (Tehran) 29
Industrial and Mining Development Bank of Iran (Tehran) 34

Ivory Coast

African Development Bank (Abidjan) 6

Kuwait

Afro-Arab Company for Investment and International Trade 7
Arab Financial Consultants Company 11

	Page
Arab Fund for Economic and Social Development	12
Arab Trust Company	23
Fund for Arab Oil Importing Countries	32
Inter-Arab Investment Guarantee Corporation	34
International Financial Advisors SAK	36
Kuwait Financial Centre SAK	38
Kuwait International Finance Company	39
Lebanon	
Arab Finance Corporation (Beirut)	11
Arab International Finance Company (Beirut)	17
Banque d'Investissement et de Financement S.A.L. (Beirut)	26
Luxembourg	
Compagnie Arabe et Internationale d'Investissement	27
Morocco	
Banque Nationale pour le Développement Économique (Rabat)	27
Netherlands	
Hexalon (Rotterdam)	33
Saudi Arabia	
Arab Investment Company (Riyadh)	18
Arab Petroleum Investment Company (Riyadh)	23
Islamic Development Bank (Jidda)	37
Spain	
Banco Arabe-Español (Madrid)	24
Sudan	
Arab Bank for Economic Development in Africa (Khartoum)	8
Arab Fund for Agricultural Investment and Development (Khartoum)	12
Sudanese-Kuwaiti Investment Company Ltd. (Khartoum)	46
United Arab Emirates	
Arab Bank for Investment and Foreign Trade (Abu Dhabi)	10
Arab Monetary Fund	21
Dubai Islamic Bank (Dubai)	30
United Kingdom	
Arab and Morgan Grenfell Finance Company (London)	22
Iran Overseas Investment Bank (London)	36
Saudi International Bank (London)	44
United States	
PEC Israel Economic Corporation (New York)	42
Headquarters' Site Undetermined or Unknown	
OPEC Special Fund	41
Solidarity Fund for Economic and Social Development in Non-Aligned Countries	44

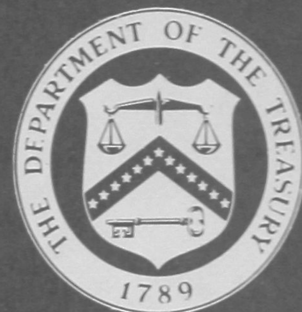
☆ U.S. GOVERNMENT PRINTING OFFICE: 1976— 626-280/351

Department of the Treasury
Office of the Assistant Secretary
(International Affairs)
Washington, D.C. 20220

Official Business
Penalty for Private Use $300

Postage and Fees Paid
Department of the Treasury
Treas 551

e Department of the TREASURY NEWS
HINGTON, D.C. 20220 TELEPHONE 964-2041



Contact: R.B. Self
Extension 8256
September 1, 1976

FOR IMMEDIATE RELEASE

TREASURY DEPARTMENT ANNOUNCES FINAL COUNTERVAILING DUTY DETERMINATION ON GLASS BEADS FROM CANADA

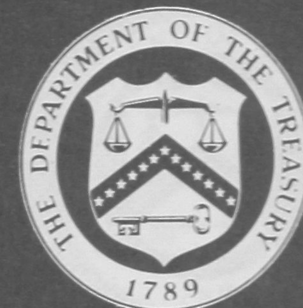
Assistant Secretary of the Treasury David R. Macdonald announced today a final determination under the Countervailing Duty Law (19 U.S.C. 1303) that bounties or grants are being paid on imports of glass beads produced by Canasphere Industries, Ltd., of Moose Jaw, Saskatchewan. Notice to this effect will be published in the Federal Register of September 2, 1976. Glass beads are made principally for highway strips enabling them to illuminate in the face of a light beam in the dark.

The Countervailing Duty Law requires the Secretary of the Treasury to assess an additional (countervailing) duty that is equal to the size of the bounty or grant that has been paid or bestowed on the production or exportation of merchandise. Treasury's investigation showed that Canasphere Industries received bounties in the form of a regional development grant from the Dominion Government and an interest-free loan from the Province of Saskatchewan. The investigation also revealed that a preponderance of Canasphere's production is exported.

* * *

WS-1059

he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041



Contact: L.F. Potts
Extension 2951
September 1, 1976

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES TENTATIVE DISCONTINUANCE OF ANTIDUMPING INVESTIGATION ON AUTOMOBILE BODY DIES FROM JAPAN

Assistant Secretary of the Treasury David R. Macdonald announced today the tentative discontinuance of antidumping investigation on automobile body dies from Japan. Notice of this decision will appear in the Federal Register of September 2, 1976.

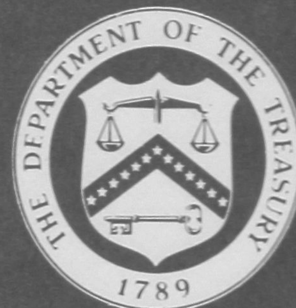
The Customs investigation revealed that those margins which were found to exist were minimal in relation to the volume of trade, and, in addition, written assurances of no future sales at less than fair value have been received from counsel acting on behalf of the exporter accounting for 78 percent of the exports of the subject merchandise from Japan, during the investigatory period.

Imports of the subject merchandise from Japan for the first half of 1976 were valued at roughly $2.5 million.

o 0 o

WS-1060

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE September 2, 1976

TREASURY TAKES FIRST STEP TOWARD CELEBRATING NATION'S TRICENTENNIAL - TO DEDICATE TIME CAPSULE

Secretary of the Treasury William E. Simon will dedicate a Time Capsule to be opened in one hundred years, in a ceremony at the Treasury Building's South Portico on September 8, 1976 at 2:00 P.M.

The Capsule, to be opened by the Secretary of the Treasury in the Tricentennial year 2076, will serve as a symbol to Americans living in the 21st Century of our faith in the Nation's future.

A message from President Ford to the future generation will be included in the Capsule, as well as a message from Secretary Simon to his future counterpart, and from Treasury officials to their future counterparts. The Capsule also will contain various Bicentennial medals, a $2 bill signed by U.S. Treasurer Francine I. Neff and Secretary Simon, and other contemporary memorabilia.

The idea for a Time Capsule was suggested by Treasury's Director of Administrative Programs, Robert R. Fredlund. The Capsule was designed by Treasury's Graphics Branch and measures 42 inches in height, 30 inches at the base, 20 inches at the top, and its four sides are made of reinforced concrete three inches thick.

An airtight inner chamber will preserve the contents of the Capsule, which will stand on display in the Cash Room of the main Treasury Building during the next century. The Treasury Seal and the numerals "2076" are displayed on one side of the Capsule.

Inscribed on the Capsule's bronze dedication plaque are these words, which express the theme of Secretary Simon's message to his counterpart in the year 2076:

WS-1061

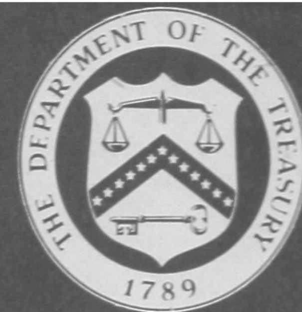
(over)

"America's greatest resource is the
vibrant heritage of a free people.
May we have the wisdom and the vision
to nourish this birthright forever."

Copies of President Ford's message and Secretary Simon's message and dedicatory remarks will be available at the Treasury Building on September 8, 1976.

o0o

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



Contact: J.C.Davenport
Extension: 2951
September 2, 1976

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES FINAL DETERMINATION OF SALES AT LESS THAN FAIR VALUE WITH RESPECT TO PORTLAND HYDRAULIC CEMENT FROM MEXICO

Assistant Secretary of the Treasury David R. Macdonald announced today that portland hydraulic cement, not including white non-staining cement, from Mexico is being or is likely to be sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Notice of this determination will be published in the Federal Register of September 7, 1976.

The case has been referred to the U.S. 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 injury determination, dumping duties will be assessed on all entries of the subject merchandise from Mexico where dumping margins exist.

Margins beyond a minimal extent were found on the sales of one of the three Mexican firms investigated. With respect to the other two firms involved in the investigation, one is being excluded from this determination based upon no sales at less than fair value and the other is being granted a discontinuance of the investigation because of minimal margins in relation to its total sales. The latter firm has offered price assurances.

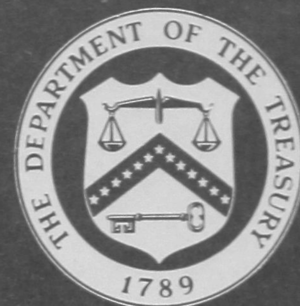
A "Withholding of Appraisement Notice" published in the Federal Register of May 28, 1976 stated that there was reasonable cause to believe or suspect that there were sales from Mexico at less than fair value. Pursuant to this notice, interested persons were afforded the opportunity to present oral and written views prior to the final determination in this case.

Imports of the subject merchandise from Mexico were valued at approximately $3.3 million during calendar year 1975.

* * *

WS-1062

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



FOR IMMEDIATE RELEASE September 7, 1976

John K. Parker Leaves Treasury

Secretary of the Treasury William E. Simon announced today that John K. Parker, Deputy Director of the U. S. Treasury Department's Office of Revenue Sharing will leave the Department on September 10, 1976 to return to the private sector.

Secretary Simon stated that "Mr. Parker has been a major contributor to the success of the General Revenue Sharing Program which serves 38,000 State and local governments with efficiency and effectiveness. I regret his loss to the Treasury, but I am pleased to know that he will continue to apply his talents to meeting the needs of our urban society."

Mr. Parker was selected as the first Deputy Director of the newly formed Office of Revenue Sharing in February 1973; and he served as Acting Director of the Office of Revenue Sharing from August 1975 until March 1976. He has had major responsibility for developing and implementing a system for administering the General Revenue Sharing Program, which has disbursed $27 billion to date with administrative costs of less than 12/100ths of one percent of the funds distributed.

He participated actively in the task force that assisted President Ford in developing the legislative proposal for renewal of general revenue sharing which is now before the Congress for action.

Prior to joining the Treasury Department, Mr. Parker held senior management positions in the city of Alexandria, Virginia and the District of Columbia government. He served on the faculty and staff of the Wharton School of the University of Pennsylvania where he had earned his Master's degree; and he is the author of many articles in professional journals and books.

WS-1063

- more -

Later this month, Mr. Parker will join Public Technology, Incorporated of Washington, D.C. as Director of the Urban Consortium, a joint venture of 34 of the nation's largest cities and urban counties formed to apply science and technology to priority urban needs.

Mr. Leo C. Inglesby has been detailed to the position of Acting Deputy Director of the Office of Revenue Sharing. Mr. Inglesby has been an official of the Treasury Department since 1958. As Director of the Facilities Management Division of the Treasury Department's Internal Revenue Service since March 1968, he has been responsible for all administrative programs related to the physical operation of Treasury's largest bureau.

- 30 -

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

September 8, 1976

MEMORANDUM FOR CORRESPONDENTS:

The Treasury Publication Middle Eastern Multinational Financial Institutions was prepared by the Office of Developing Nations under the direction of Assistant Secretary for International Affairs Gerald L. Parsky.

Additional copies of Middle Eastern Multinational Financial Institutions (Stock Number 048-000-00286-20) can be obtained from Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. The price is $.95.

# # #

WS-1064

ie Department of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR IMMEDIATE RELEASE September 2, 1976

JAPAN'S VICE MINISTER OF FINANCE AND UNDER SECRETARY FOR MONETARY AFFAIRS YEO REPORT ON DISCUSSIONS

At the conclusion of a meeting today at the Treasury Department, Vice Minister of Finance Michiya Matsukawa of Japan and Under Secretary for Monetary Affairs Edwin H.Yeo,III released the following report of their discussions:

For some time, we have felt a need for closer, more frequent consultation and contact on international economic and financial issues between Japan and the United States -- two friends that have a major stake in and responsibility for a smoothly functioning international monetary system. This desire to strengthen contact prompted Mr. Yeo's visit to Japan last month. Mr. Matsukawa's visit to Washington is a continuation of what we expect will become a regular process of meetings, discussions, and exchanges of views by senior economic policy officials. Such a process is essential to thoughtful, deliberate analysis of problems facing the system.

Our discussions today and over the past weeks have disclosed a common view on the part of Japan and the United States of current major problems in the international monetary area and of the main outlines of corrective action that is needed.

It is clear that a first priority is continued progress in the development of a tenable pattern of world payments balances, which is fundamental to a smoothly operating system that facilitates the efficient conduct of trade and finance; and that countries both in deficit and in surplus have a critical role to play in the adjustments required to achieve such a pattern. For countries in deficit internal stabilization and exchange rate action resulting from the operations of the market should be combined to produce sustainable balance.

Transitional multilateral financing will be needed to complement appropriate adjustment policies on the part of countries in structural deficit; and countries in surplus should be prepared to accommodate adjustment through the exchange rate, for they cannot be asked or expected to inflate.

WS-1065

This represents our shared analysis of the world payments situation and is within the framework of the Rambouillet, Jamaica and San Juan agreements. Japan and the United States have a large responsibility for the conduct of the monetary system and intend to work together and with others to assure that the system operates smoothly and efficiently.

oo 00 oo

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR IMMEDIATE RELEASE September 3, 1976

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,300 million of 13-week Treasury bills and for $3,400 million of 26-week Treasury bills, both series to be issued on September 9, 1976, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing December 9, 1976			26-week bills maturing March 10, 1977		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.719	5.068%	5.20%	97.310	5.321%	5.54%
Low	98.711	5.099%	5.24%	97.299	5.343%	5.57%
Average	98.714	5.087%	5.23%	97.304	5.333%	5.56%

Tenders at the low price for the 13-week bills were allotted 5%.
Tenders at the low price for the 26-week bills were allotted 59%.

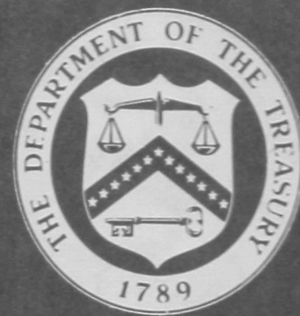
TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 38,695,000	$ 22,695,000	$ 57,345,000	$ 12,345,000
New York	3,281,150,000	1,794,400,000	6,818,600,000	2,576,770,000
Philadelphia	30,620,000	30,620,000	40,740,000	30,240,000
Cleveland	87,080,000	87,080,000	158,435,000	22,935,000
Richmond	19,820,000	19,820,000	69,490,000	41,490,000
Atlanta	26,805,000	26,805,000	69,900,000	33,300,000
Chicago	247,970,000	95,830,000	389,830,000	20,630,000
St. Louis	44,565,000	28,665,000	72,185,000	27,830,000
Minneapolis	32,550,000	29,700,000	62,320,000	3,765,000
Kansas City	29,835,000	27,835,000	47,880,000	35,355,000
Dallas	43,990,000	19,290,000	35,645,000	13,645,000
San Francisco	295,800,000	118,600,000	886,625,000	582,370,000
TOTALS	$4,178,880,000	$2,301,340,000a/	$8,708,995,000	$3,400,675,000b/

a/ Includes $343,470,000 noncompetitive tenders from the public.
b/ Includes $162,440,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

WS-1066

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE AT 4:00 P.M. September 7, 1976

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 $5,200 million , or thereabouts, to be issued September 16, 1976, as follows:

91-day bills (to maturity date) in the amount of $2,100 million, or thereabouts, representing an additional amount of bills dated June 17, 1976, and to mature December 16, 1976 (CUSIP No. 912793 C6 1), originally issued in the amount of $3,203 million, the additional and original bills to be freely interchangeable.

182-day bills, for $3,100 million, or thereabouts, to be dated September 16, 1976, and to mature March 17, 1977 (CUSIP No. 912793 F2 7).

The bills will be issued for cash and in exchange for Treasury bills maturing September 16, 1976, outstanding in the amount of $5,206 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,707 million. 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, September 13, 1976. 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

WS-1067

(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.

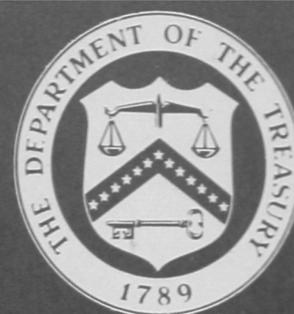
Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, 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 $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 September 16, 1976, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 16, 1976. 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.

oOo

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



STATEMENT BY THE HONORABLE GERALD L. PARSKY
ASSISTANT SECRETARY OF THE TREASURY
FOR INTERNATIONAL AFFAIRS
BEFORE THE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE
UNITED STATES SENATE
WEDNESDAY, SEPTEMBER 8, 9:30 A.M.

I am pleased to join in this review of the U.S.-Romania Trade Agreement. Both the Department of the Treasury, and the East-West Foreign Trade Board, chaired by Secretary Simon, strongly favor extension of the waiver pursuant to authority conferred by section 402 of the Trade Act. An extension of the waiver allowing the U.S.-Romania Trade Agreement to remain in force will promote continued improvement in our economic and political relations with that country and serve our national interest. It will allow us also to build upon the important foundations laid in the last few years.

We are grateful, Mr. Chairman, for this opportunity to discuss the issues involved in the further expansion of U.S.-Romanian economic and political relations. We believe it can help create an environment of public understanding and confidence; an environment which will permit political and economic relations between the United States and Romania to develop in a mutually advantageous manner.

The United States and Romania have enjoyed a special relationship since at least 1969, when we chose Romania as the first country in Eastern Europe to be visited by a U.S. President since World War II. While the U.S. now enjoys extensive relations with other Eastern European countries, particularly in the areas of trade and joint scientific research, our relations with Romania are among the best with countries of the Warsaw Pact. This is demonstrated through scientific and cultural exchanges, by the frequency and frankness of consultations between senior officials, in trade and economic relations, and in other ways.

The U.S.-Romanian Trade Agreement has marked a major step forward in the development of our economic and political relations with Romania. We are convinced that the continuation of the Agreement will contribute to the growth and

WS-1068

stability of the economies of both countries, and to a further increase in two-way trade.

Strengthening good U.S.-Romanian relations, both economic and political, serve the interests of both countries. Romania has adopted a number of policy initiatives that are aimed at providing the country with a high degree of independence. More than any other Warsaw Pact country, Romania has pursued friendly relations with countries of differing political and economic systems -- with the United States, the People's Republic of China, the developing world, and with Israel as well as Arab countries. Romania participates actively in a number of international organizations. It is the only COMECON country which is a member of the IMF and the World Bank. Romania has acceded to the GATT. It leads the COMECON countries in the proportion of its trade with the West.

Romania's economic viability is the key to its strategy of independence. We believe that it is in our interest to encourage Romania's independent policy orientation through the expansion and improvement of our bilateral relations. Continuation of the Trade Agreement with Romania is essential to this end. Moreover, closer economic ties and expanding trade strengthen the economies of both countries.

Trade Overview

In our desire to encourage Romania's independent policy we have been in favor of the expansion of American-Romanian economic and commercial contacts for many years. The notable increase in total U.S.-Romanian trade during the last eleven years is a demonstration of the special relationship we have established with that country.

U.S.-Romanian trade turnover was $8 million in 1965, $80 million in 1970, and reached a high of over $407 million in 1974, when the Romanians purchased relatively large quantities of U.S. aircraft and grain (see attached table). Although total bilateral trade declined from 1974 to 1975, the 1975 volume of over $322 million was still almost twice the total in 1973, and more than three times the volume in 1972.

Throughout this period of increasing trade, the United States has consistently sustained a positive annual trade balance with Romania. Our exports, composed primarily of agricultural and manufactured goods, grew nearly thirty times, reaching $189.3 million last year. U.S. imports from Romania totaled $133 million in 1975, more than seventy times the 1965 volume. The bulk of last year's imports consisted, as in the past, of mineral fuels and related materials.

As you know, the United States granted Most-Favored-Nation (MFN) tariff status to Romania in August 1975, as part of the U.S.-Romania Trade Agreement. And Romania was made a beneficiary of the U.S. Generalized System of Preferences on January 1, this year. The initial impact of these actions on our bilateral trade is at least in part reflected in the trade figures available for the first half of this year.

U.S.-Romanian trade during the first six months of 1976 totaled $179 million, over 10 percent above the $158 million in goods traded during the same period in 1975. Romanian exports to the U.S. through June of 1976 reached $90 million, about two and one-half times the amount recorded during the same period of last year. This large increase in U.S. imports from Romania has, for the first time in recent years, resulted in a near balance in our two-way trade.

While extending MFN and GSP to Romania's products has contributed to this year's rise in our imports from Romania, the increase should not be attributed exclusively to these actions. Many factors other than tariff changes affect trade. In this instance, the recovery of the U.S. economy in 1976 has led to significant increases in our imports from many countries, including Romania. This is especially true of our imports of products such as fuel oil, which, in dollar terms, led the increase in U.S. imports of Romanian goods. During the first half of 1976, fuel oil imports from Romania reached over $42 million, representing almost one-half of all our imports from that country so far this year.

I would also like to point out that the trade data for the first six months of this year dispel the often expressed fear that the U.S. market will be flooded with large quantities of imports disrupting U.S. domestic business when our imports from nonmarket economy countries are given MFN tariff treatment. This simply has not been the case with Romania. Since granting MFN status to Romania last year, our imports from that country have, as expected, increased, but certainly not to levels that would be considered disruptive for the U.S. market. To date, the U.S. International Trade Commission has received no petition or request under Section 406 of the Trade Act to conduct an investigation to determine whether imports of an article from Romania are causing market disruption, nor has U.S. countervailing duty authority been invoked against Romanian imports. The only case which has arisen since Romania received MFN status is the issuance of an Antidumping Proceeding Notice on Romanian clear sheet glass. The issuance of such a notice, however, merely begins the formal investigative procedure and does not necessarily imply a formal finding of dumping.

A continuation of the increase of total U.S. imports from Romania, stimulated further by the Trade Agreement and the granting of GSP, can be expected in the future, but will undoubtedly be accompanied by a continuation of the rapid rise of Romanian purchases from the United States. Thus we envision that both countries will continue to gain from increased trade, resulting from our present economic policy toward Romania, in which the U.S.-Romania Trade Agreement is a critical element.

Prospects for U.S.-Romanian Trade

The prospects for future U.S. exports of goods and services to Romania are good, if we maintain the normalized trading conditions which the Trade Agreement has established. Both Governments anticipate a pickup in our bilateral trade during the last half of the year, bringing it to an annual total of around $400 million, a 16 percent increase over 1975. At the first session of our Joint Economic Commission both sides agreed to set a goal of $1 billion for our two-way trade by 1980. Romania's current Five-Year Plan projects substantial growth in the volume of Romania's foreign trade in support of a strong effort to expand and modernize Romanian industry. During the next five years, imports from the West are expected to increase by 60-70 percent over the 1971-75 period. If the U.S. share of Industrialized West exports to Romania continues at the level it has averaged over the past three years, we can expect to garner about 11 percent of the 60-70 percent increase.

U.S. exporters can expect to increase sales of plants, machinery and equipment in a number of industrial sectors particularly targeted for growth. Among these are machine building, chemicals, and petrochemicals. While the Romanian Five-Year Plan augurs well for increased exports of U.S. manufactured goods, we expect that U.S. agricultural exports will continue to comprise an important component of our total sales to Romania. Soybeans, cotton, and to a lesser extent wheat, have been and will continue to be leading U.S. exports in the agricultural sector.

Many barriers to commercial contacts in Romania and to the establishment of trading patterns and relationships have been largely overcome in the last few years. Knowledge that the U.S. has become an open and dependable market for Romanian exports is causing Romania to look to the United States as a source for high quality competitively priced manufactures, as well as important agricultural products.

MFN and Credits

Romania's ability to expand its imports from the United States and other Western countries, which help it to pursue its policy of independence, will of course depend upon its ability to earn or borrow the hard currency needed to finance these imports. To earn hard currency, Romania's exports must have access to Western markets, including our own. Our Western allies have given most-favored-nation status to imports from Romania. In granting MFN to Romania, the United States did not of course give that country any special privilege; we simply allowed Romania's products to enter the U.S. market and compete on an equal footing with the products of over 100 other nations which also receive MFN tariff treatment from us. Without a continuance of equal tariff treatment of Romania's products, we will force Romania to conduct much of its hard currency business with our West European competitors, and we will face the possibility of losing our potential exports to Romania in the process.

At the same time that access to Western markets is vital for Romania to continue its import program, sources of Western financing, both public and private, are equally important. In the 1960's, when the Romanians

began their move toward independence, this policy combined with rapid industrialization seemed likely to get them into political and financial trouble. In the 1970's, however, the Romanian approach, consisting of a strong commitment to succeed in world markets combined with considerable investment in selected industries, has begun to show impressive results in production and exports. But the Romanians still have a need to borrow in the West to help finance their ambitious import program and to service their existing outstanding debt.

In order for Romania to adequately manage its hard currency debt situation, the Romanian Government will have to monitor its economy carefully to ensure that it does not grow more rapidly than can be sustained.

In light of the continuing Romanian interest in Western sources of financing, the availability of credits is expected to be an important factor in Romania's purchasing decisions. Without a continuation of the Title IV waiver for Romania, Eximbank and the Commodity Credit Corporation would, of course, have to cease making loans or guarantees to that country.

As of June 30, 1976, Eximbank exposure in Romania was $75.6 million. In addition, outstanding preliminary commitments from Eximbank total about $21 million for proposes projects with a total export value of $49 million. While the flow of official credits from the U.S. represents only a small fraction of the capital available to Romania for trade in general, Eximbank credits are nonetheless necessary to facilitate export financing and to place U.S. firms on a competitive basis with their industrial competitors in doing business with that country. The inability of Romania to obtain Eximbank credits would probably result in a cancellation of many current and future orders for exports to Romania from U.S. businesses. Should that occur, our mutually beneficial trading relationship with Romania would be placed in jeopardy over the long-term.

It is my hope that counter-productive competition among Western industrial nations for exports through government-supported credits will soon end. At the end of the economic conference in November 1975, at Rambouillet, France, the Heads of State of the

Governments of France, Germany, Italy, Japan, the United Kingdom and the United States declared that their Governments would intensify efforts to achieve a prompt conclusion of discussions then underway, among themselves and Canada, concerning export credits. Renewed discussion among these Governments resulted in a consensus that counter-productive competition must be avoided with respect to government-supported export credits. While it was not possible to reach a formal agreement to implement this consensus, all of the Governments issued their own declarations or instituted internal procedures to establish their own guidelines on minimum rates and maximum terms on official export credits. These guidelines are designed to bring official export financing procedures closer to those standards determined by the market and thereby reduce the concessional element derived from government support. This will allow exporters to compete in world markets on the basis of price, quality, and servicing of product rather than on artificial incentives.

Commodity Credit Corporation (CCC) credits also play an important role in our trade with Romania. Since 1970, CCC has been quite active, financing a total of $137.9 million worth of U.S. agricultural exports to that country. Romania has been a good customer with prompt repayment. These credits have stimulated the growth of our agricultural exports, and at the same time, have supported the integration of Romania into the world community. If the waiver for Romania is not extended, the U.S. Government will also lose its authority to extend CCC credits to Romania.

Conclusion

Mr. Chairman, our experience with the U.S.-Romanian Trade Agreement has convinced us of its continued importance. In commercial and economic terms it has been a central propellant to the growth of U.S.-Romanian relations.

Though the question of linkage between the Trade Agreement and humanitarian issues is a very delicate and sensitive one for the Romanian Government, the record of Romanian action on humanitarian and emigration cases during the past year has contributed to

the achievement of the objectives of the Act. Secretary Simon, during his visit to Bucharest in June of this year, held frank discussions with Romania's leaders about the extension of the waiver pursuant to authority under Section 402 of the Trade Act. We were encouraged by the importance Romania's leaders place on this issue. The pivotal role that the U.S.-Romanian Trade Agreement plays in our bilateral relations became very apparent during the course of our discussions.

During the last year we believe that Romania's emigration performance has contributed to the achievement of the objectives of the Trade Act. There is no doubt that the continuation of the waiver will provide the climate in which we can expect the Romanian Government to continue to be responsive to our very deep interest in human rights. On the other hand, failure to extend the waiver could prompt a reaction by Romania which will be inimical to the humanitarian goals of the Trade Act.

In conclusion, then, we believe that extension of the waiver allowing the U.S.-Romanian Trade Agreement to remain in force is in our national interest.

oOo

U.S.-ROMANIAN TRADE TRENDS
(Millions of dollars)

	1965	1970	1971	1972	1973	1974	1975	Jan-Jun 1975	Jan-Jun 1976
U.S. Exports: Manufactured goods 1/	n.a.	18.8	15.4	18.8	31.7	108.6	56.9	32.2	17.8
Other	n.a.	47.5	37.0	50.3	84.8	168.5	132.4	89.6	71.4
Total	6.4	66.3	52.4	69.1	116.5	277.1	189.3	121.8	89.2
U.S. Imports	1.8	13.4	13.8	31.5	55.7	130.5	133.0	35.9	90.5
Trade Turnover	8.2	79.7	66.2	100.6	172.2	407.6	322.3	157.7	179.7
U.S. Trade Balance	4.6	52.9	38.6	37.6	60.8	146.6	56.3	85.9	-1.3

1/ SITC 5 through 8 statistics not available (n.a.) for 1965

Source: U.S. Department of Commerce, BEWT

Summary of the Principal Points Included in the Statement

1. Both the Department of the Treasury, and the East-West Foreign Trade Board, chaired by Secretary Simon, strongly favor extension of the waiver pursuant to authority conferred by section 402 of the Trade Act.

2. We believe that continuation of the Agreement serves our foreign policy interests. The dominant theme of Romania's foreign policy is the desire to maintain a high degree of independence. Continuation of the Trade Agreement with Romania is essential to this end, as Romania's economic viability is the key to its strategy of independence.

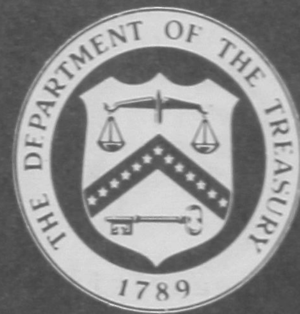
3. We believe that continuation of the Agreement serves the economic interests of both countries. We have continued to encourage the expansion and improvement of American-Romanian economic and commercial relations. The increase in our contacts is reflected by U.S.-Romanian trade figures. The $322 million in two-way trade in 1975 was 4 times that of 1970 and 40 times that of 1965.

4. Romania's current Five-Year Plan calls for substantial increases in imports of goods traditionally supplied by the United States. Romania's ability to expand its imports from the United States and other Western countries, and to continue to pursue its policy of independence, will depend upon its ability to earn hard currency needed to finance these imports. To earn hard currency, Romania's exports must have access to Western markets, including our own. Without a continuance of equal tariff treatment of Romania's products, we will force Romania to conduct much of its hard currency business with our West European competitors who have granted most-favored-nation status to imports from Romania, and we will face the possibility of losing our potential exports to Romania in the process.

5. While access to Western markets for Romania's products is vital for Romania to continue its import program and its independent policy, sources of Western financing, including U.S. Eximbank and Commodity Credit Corporation (CCC), are equally important. Without a continuation of the Title IV waiver for Romania, Eximbank and the CCC would have to cease making loans or guarantees to that country. Should that occur we will face the possibility of losing potential exports to Romania and place in jeopardy over the long-term our mutually beneficial trading relationship.

6. Our experience with the U.S.-Romanian Trade Agreement gives us no cause to question its continued usefulness. Though the question of linkage between the Trade Agreement and humanitarian issues is a very delicate and sensitive one for the Romanian Government, the record of Romanian action on humanitarian and emigration cases during the past year has contributed to the objectives of the Trade Act.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE AT 4:00 P.M. September 7, 1976

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 $5,200 million , or thereabouts, to be issued September 16, 1976, as follows:

91-day bills (to maturity date) in the amount of $2,100 million, or thereabouts, representing an additional amount of bills dated June 17, 1976, and to mature December 16, 1976 (CUSIP No. 912793 C6 1), originally issued in the amount of $3,203 million, the additional and original bills to be freely interchangeable.

182-day bills, for $3,100 million, or thereabouts, to be dated September 16, 1976, and to mature March 17, 1977 (CUSIP No. 912793 F2 7).

The bills will be issued for cash and in exchange for Treasury bills maturing September 16, 1976, outstanding in the amount of $5,206 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,707 million. 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, September 13, 1976. 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

WS-1067

(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.

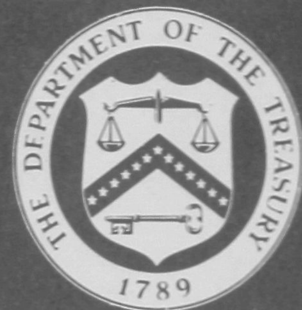
Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, 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 $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 September 16, 1976, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 16, 1976. 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.

oOo

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE September 8, 1976

SECRETARY SIMON DEDICATES TIME CAPSULE
TO BE OPENED IN ONE HUNDRED YEARS

Secretary of the Treasury William E. Simon today dedicated a Time Capsule to be opened in the Tricentennial year 2076, in a ceremony on the South Plaza of the Treasury Department building.

The Capsule, which will stand on display in the Cash Room of the main Treasury building for one hundred years, will serve as a symbol to Americans living in the 21st Century of our "faith in the Nation's future, its dynamic economy, and its timeless principles of freedom," the Secretary said.

Sealed into the Capsule, within an airtight inner chamber to preserve the contents, is a message from President Ford to the citizens of the United States living during the Tricentennial year, as well as a message from Secretary Simon to his future counterpart and from Treasury officials to their future counterparts. The Capsule also contains various Bicentennial medals, a $2 bill signed by U.S. Treasurer Francine I. Neff and Secretary Simon, and other contemporary memorabilia.

In dedicating the Time Capsule, Secretary Simon read the theme of his message, which is inscribed on the Capsule's bronze dedication plaque:

> "America's greatest resource is the
> vibrant heritage of a free people.
> May we have the wisdom and the vision
> to nourish this birthright forever."

WS-1069

Noting that his brief communication across the years was more than a statement of the economic philosophy of the Administration now in office, Secretary Simon read from his message to his successor in America's Tricentennial year: "In a larger sense it is an affirmation of our faith in the Nation's future and continuity and a conviction that our economy, if properly managed, will remain the most creative and productive in the world, in your time as well as ours."

"Much of what will unfold in the intervening century will be beyond our capacity to foretell or even imagine. As Patrick Henry said, 'I have no way of judging the future but by the past,'" Secretary Simon said.

"However, the same basic forces that move men and activate their economies are rather constant," he continued. "Many of our challenges today regarding production, living standards, employment, inflation, the quality of life and distribution of wealth will be yours tomorrow."

Stating in his message that for roughly 40 years the concept that the Federal Government must continually intervene to stabilize the economy has increasingly influenced economic policy-making, the Secretary added: "This shift in economic policies reflected the erroneous belief that a monolithic government could identify -- solve -- and pay for all of the problems of society by cleverly manipulating fiscal and monetary policies to control market forces."

"This trend," he continued, "has been carried beyond the stage of economic planning and temporary assistance to alleviate the impact of economic recessions to a degree of intervention that has unnecessarily restricted the creativity and productivity of the economic system. This problem is now recognized throughout our political and economic system."

In striving to stabilize economic policies to provide a solid foundation for healthy economic growth both at home and abroad, United States economic policy recognizes four basic economic goals, the Secretary said. They are:

"*Prosperity and economic growth occurs largely through encouragement of the private sector, which provides five out of six jobs in the country today and generates the abundance that supports government activities.

"*Skillful management of economic affairs requires an environment of sustained, non-inflationary growth which will benefit all Americans and strengthen our position abroad in an increasingly interdependent world.

"*Better control of the momentum of government spending is required to prevent the disruption of economic stability resulting from inflation and unemployment. A truly compassionate approach to economic policy-making recognizes that inflation is the most insidious force in our system since it destroys the purchasing power of our people and disrupts the saving and investment needed to provide the means of increasing output and new job opportunities.

"*Lowering of the level of taxation, so that our economy and society are spared the stultification and decay that have afflicted other societies where the state has consumed an increasingly larger part of the national product."

Assisting Secretary Simon at the colorful dedication ceremony, which included patriotic selections by the U.S. Marine Band, Presentation of the Colors by a Joint Armed Forces Color Guard, and the playing of the National Anthem, were the Honorable Francine I. Neff, Treasurer of the United States; Richard R. Albrecht, General Counsel of the Treasury Department and President of the Treasury Historical Association; and Miss Jo Creighton, under whose supervision arrangements were completed for the official dedication of the Capsule.

The original idea for a Time Capsule as part of the Bicentennial celebration was suggested by Treasury's Director of Administrative Programs, Robert R. Fredlund. The Capsule was designed by Treasury's Graphics Branch and measures 42 inches in height, 30 inches at the base, 20 inches at the top, and its four sides are made of reinforced concrete three inches thick.

Copies of the texts of President Ford's message and Secretary Simon's message are attached.

o0o

THE WHITE HOUSE

WASHINGTON

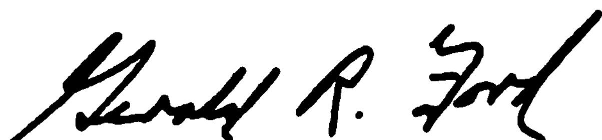
September 3, 1976

I commend Secretary Simon and the Treasury staff for the emplacement of a time capsule in their Department. This is a fitting act for the Bicentennial celebration and a meaningful gesture of continuity and communication with those Americans who will celebrate the nation's Tricentennial year. As you set aside these papers and memorabilia for the future, you recognize that there is something about the United States of America that is too mighty to be locked up in a time capsule. Our real national treasure cannot be kept under lock and key. No container is large enough to embrace the hopes, the energies and the abilities of our people.

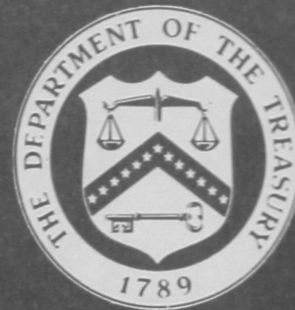
The genius of America has been its capacity to improve the lives of its citizens through a unique and successful combination of governmental and citizen activity. Significantly, this has been accomplished in a climate of individual freedom, our most precious gift. I sense that in 2076, as in 1976, the true wealth of this nation, the legacy that passes from generation to generation, will be this amazing power of the free individual.

Responsible government policies, whether they deal with the pocketbook or with human rights, must start with the individual because the nation is no more, nor less, than a collection of individuals. It is the combined force of the daily decisions, daily tasks and daily struggles of free Americans that sustains the life of this Republic. That is the secret of our bountiful economy, of our proven experiment in self-government and of our vibrant spirit.

I am confident that in America's Tricentennial year we will present to the world the same image that has inspired mankind since the American Revolution -- the image of a people united, producing abundance, improving the lot of their fellow men and sharing the good life fairly and in freedom.



Department of the TREASURY NEWS
HINGTON, D.C. 20220 TELEPHONE 964-2041



REMARKS BY THE HONORABLE
WILLIAM E. SIMON
DEDICATION OF THE TREASURY TIME CAPSULE
SEPTEMBER 8, 1976

Colleagues and Distinguished Guests:

It is an axiom that the Bicentennial year is a time for looking forward as well as back, and few gestures can set our sights so firmly on the future as the placing of this time capsule in the Treasury Department.

This has truly been a Treasury Department project. The design of the capsule itself is by our own Graphics Branch. And many others, including the unit heads who have written messages to their Treasury counterparts in 2076, have contributed mightily to the project, making it a splendid example of Treasury teamwork and participation. President Ford also has graciously contributed a message to our fellow Americans who will celebrate the nation's tricentennial anniversary.

My own message, directed to the Secretary of the Treasury one hundred years from now, has this theme -- that America's greatest resource is the vibrant heritage of a free people. I should like to read that message now.

To the Secretary of the Treasury in 2076:

The purpose of this message is to share with my successor in America's tricentennial year some of the policies and beliefs about the U.S. economy which were held and acted on by the nation's policy makers during our bicentennial year.

This communication across the years is more than a brief statement of the economic philosophy of the administration now in office. In a larger sense it is an affirmation of our faith in the nation's future and continuity and a conviction that our economy, if properly managed, will remain the most creative and productive in the world, in your time as well as ours.

Whether today's policies will seem plausible from the vantage point of 2076, I don't know. Much of what will unfold in the intervening century will be beyond our capacity to foretell or even imagine. As Patrick Henry said, "I have no way of judging the future but by the past."

However, the same basic forces that move men and activate their economies are rather constant. Many of our challenges today regarding production, living standards, employment, inflation, the quality of life and distribution of wealth will be yours tomorrow.

In this administration, we have a bedrock conviction, based on two centuries of experience. We are convinced that the most effective and the fairest way to guarantee steady, durable growth that yields the greatest possible rewards and fulfillment for all of our citizens is to encourage and strengthen the private sector of our economy.

This is not to suggest that a deep division exists in this country over which sector, private or public, should produce the bulk of our goods and services. There is no such classic confrontation. Ours has been and remains a private enterprise economy. There is, however, disagreement over how far government, particularly the Federal Government, should go in allocating resources, and over whether we should tip the balance more toward government or more toward the free marketplace in organizing our economic activity.

For roughly 40 years, the concept that the government must continually intervene to stabilize the economy has increasingly influenced our economic policy-making. This shift in economic policies reflected the erroneous belief that a monolithic government could identify - solve - and pay for all of the problems of society by cleverly manipulating fiscal and monetary policies to control market forces. While these efforts were generally well intentioned, in reality they turned out to be inefficient and poorly timed. In fact, each successive round of policy adjustments created additional distortions that led to cumulative inflation and unemployment which disrupted not only the United States but the rest of the world. In promising too much and delivering too little these economic policies created skepticism and confusion about the true strength of the American economy.

This trend has been carried beyond the stage of economic planning and temporary assistance to alleviate the impact of economic recessions to a degree of intervention that has

unnecessarily restricted the creativity and productivity of the economic system. This problem is now recognized throughout our political and economic system.

In the early 1930s, government at all levels -- Federal, State and Local -- accounted for about 12 cents of every dollar spent. Today, government accounts for more than 35 cents, and our projections indicate this will reach 60 cents of every dollar by 2000 unless the trend is deflected.

In the mid-1960s, the United States, largely because of accelerating government spending and excessive control of the economy, experienced a series of booms and recessions. Serious overheating of the economy caused by the government deficit spending and the rapid expansion of the supply of money created severe price pressures. Accelerating inflation dampened housing construction, personal spending and business investment. The resulting downturns in the economy brought unemployment which created hardship and wasted both human and material resources. This, in turn, triggered poorly planned and ill-timed fiscal and monetary policies which ignited yet another round of excessive stimulus -- followed by renewed inflation, recession, serious strains on our financial system, and even more government intervention.

Ironically, we discovered that excessive government intervention hurt most those citizens its supporters claimed to help: the poor, the elderly, the jobless, the dependent and the disabled.

To break this cycle and return the U.S. economy to full output and lasting growth, we are striving to stabilize economic policies to provide a solid foundation for economic growth in the future with more stable prices, less unemployment, more efficient use of our valuable resources and responsible leadership in the international economy. Our policies recognize the following basic goals:

* Prosperity and economic growth occurs largely through encouragement of the private sector, which provides five out of six jobs in the country today and generates the abundance that supports government activities.

* Skillful management of economic affairs requires an environment of sustained, non-inflationary growth which will benefit all Americans and strengthen our position abroad in an increasingly interdependent world.

* Better control of the momentum of government spending is required to prevent the disruption of economic stability

resulting from inflation and unemployment. A truly compassionate approach to economic policy-making recognizes that inflation is the most insidious force in our system since it destroys the purchasing power of our people and disrupts the saving and investment needed to provide the means of increasing output and new job opportunities.

* Lowering of the level of taxation, so that our economy and society are spared the stultification and decay that have afflicted other societies where the state has consumed an increasingly larger part of the national product.

When we criticize the growing intervention of bigger government bureaucracies and escalating expenditures that have grown much more rapidly than the underlying growth of the total economy, it is not because we are anti-government. We are not. We want government to succeed, and perform well those tasks, such as protection of the public interest, which government alone can perform and those other activities it can properly undertake in a modern society in partnership with the private sector.

However, the fact is that for many years, particularly the past 10 or 15 years, the Federal Government has gotten out of hand. It is trying to do more than our resources allow, to do many things it cannot do well, to do other things it should not be doing at all -- and to do all of these things at the same time. Somewhere along the line, government has lost its way and, in so doing, has forfeited the full trust and confidence of its citizens.

What kind of a government do people want? I venture to say they want a government that is not afraid to examine itself, not afraid to say "we should be doing this" or (even more important) "we should not be doing that." We need a government, for example, that is capable enough to nourish the natural forces of a free economy, resolute enough to get off the backs of our innovators and dreamers and job producers, determined enough to reawaken the energies and drive of millions of free men and women by strengthening their freedoms rather than by trying to control their lives.

We need, in other words, to strike a finer balance between citizen and government -- one that favors greater self-reliance on both the individual and on that level of government closest to the individual.

And, more important than anything else, we must preserve that inextricable union between our freedoms -- economic, political, individual. For if economic freedom is lost, our

other freedoms cannot be sustained. That is the real reason for our determination to cut down the size of government and reduce its inroads in the marketplace.

"What has made this a great nation?" Many still ask today. What has made people throughout the world talk about "the American dream?" It has not been only our land and resources, which are abundant. It has not been simply the qualities of our people, who are resourceful, talented, adaptable and determined. It is that crucial factor, the commitment to freedom which buoys up our people and invigorates our institutions.

If this blessing can be preserved in our time and in succeeding generations, then it will be the greatest legacy that can be passed on to the Americans of 2076. America's greatest resource is the vibrant heritage of a free people. May we have the wisdom and the vision to nourish this birthright forever.

And now, by placing this document along with the others in the capsule, I hereby dedicate this Treasury Time Capsule as a symbol of our faith in the nation's future, its dynamic economy, and its timeless principles of freedom.

oOo

Administration Positions and

Conference Action on

H.R. 10612

Titles I and II - LAL and Other Tax Shelter Provisions

1-30 - (Open)

Title III - Minimum and Maximum Tax Changes

31-33 - (Open)

Treasury Department

September 7, 1976

WS-1070

Title IV - Individual Tax Reductions

34. General tax credit — 34. -----

Discussion: The Administration is disappointed by the form, duration and extent of the tax cut extension provisions in the House and Senate bills. It continues to support greater tax reductions coupled with a dollar-for-dollar reduction in federal expenditures.

Conference Action: The Conferees adopted the Senate provisions providing for a $35 per capita tax credit for individuals. The tax credit was extended to January 1, 1978.

35. Standard deduction — 35. -----

Conference Action: The Conferees adopted the Senate provisions providing for an increase in the standard deduction to a maximum of $2400 for single returns and $2800 for joint returns. The standard deduction changes were made permanent.

36. Earned income credit — 36. -----

Conference Action: The Conferees extended the earned income credit to January 1, 1978.

37. Disregard of earned income credit — 37. No objection to House and Senate provisions.

Conference Action: The Conferees agreed to provision providing that refunds from the earned income credit are to be disregarded in determining eligibility for assistance benefits.

Title V - Tax Simplification

38. Alimony payments

38. Support provision with Senate effective date

Conference Action: The Committee voted to make the alimony deduction an above-the-line deduction for taxable years beginning after December 31,. 1976.

39. Child care expenses

39. Oppose the refundable feature of the Senate provision.

Discussion: The credit for child care expenses may be considered a cost of earning income. The credit thereby performs a legitimate tax function in determining the proper amount of tax due. However, refundability has nothing to do with the determination of tax liability; it is simply an addition to the tax system which more properly serves a welfare function.

Conference Action: Open

40. Sick pay and certain military disability pensions

40. Support House provision. No objection to Senate provision for Federal employees injured as the result of acts of terrorism.

Discussion: The Senate floor amendment retaining sick pay provisions of current law for taxpayers with adjusted gross incomes of $15,000 or less is contrary to the simplification purpose of Title V. Also, more fundamentally, no justification exists for treating sick pay any differently than other wages.

Conference Action: Open

41. Moving expenses — 41. Support Senate provision.

Conference Action: The Committee adopted a December 31, 1976 effective date. The Conferees agreed to limit the increase in the maximum deduction for moving expenses from $2,500 to $3,000 (House provision) and to provide special rules (Senate provision) for members of the armed forces on active duty who are moved by military orders.

42. Tax study by Joint Committee — 42. No objection to Senate provision.

Conference Action: The House accepted the Senate provision requiring a Joint Committee study on simplification.

43. Treasury report on tax simplification and integration of corporate and individual income taxes — 43. No objection to Senate provision.

Discussion: Treasury is presently undertaking a study on basic tax reform.

Conference Action: The Committee deleted this provision on Treasury's assurance that it would attempt to submit its study by 12/31/76.

Title VI - Business Related Individual Provisions

44. Deductions for expenses attributable to business use of homes — 44. Support Senate provision. Oppose Senate floor amendment of Senator Bartlett expanding definition of business use of home.

Conference Action: The Committee adopted the House provision which would permit the deduction of expenses attributable to the business use of a home only where such expenses are attributable to the portion of the home used exclusively on a regular basis as (a) the taxpayer's principle place of business, and (b) a place of business which is used for patients, clients, or customers in meetings or dealings with the taxpayer in the normal course of his business. The Committee also accepted the Senate modification which would allow a deduction for a separate structure not attached to the taxpayer's dwelling unit which is used exclusively on a regular basis in the taxpayer's trade or business.

45. Deduction for expenses attributable to rental of vacation homes

45. No objection to House and Senate provisions.

Discussion: It is appropriate to replace the present facts and circumstances test of current law with an objective mechanical rule. The Administration prefers the two week rule to the alternative tests of the House and Senate provisions.

Conference Action: The Committee adopted the Senate provision, which would limit the amount allowable for deductions attributable to the rental of a vacation home if the home is used by a taxpayer for personal purposes in excess of the greater of two weeks or 10% of its actual business use. They also accepted the Senate de minimus rule (with a modification) that no business deductions would be allowed if the vacation home was actually rented for less than 15 days.

46. Deductions for attending foreign conventions

46. Support Senate provision (as reported by the Finance Committee). Oppose Senate floor amendment retaining present law.

Discussion: The Senate provision would curb most of the abuse of the deduction allowed for attending foreign conventions. The House provision contains mechanical rules which would be difficult to administer. It also fails to deal with conventions on cruise ships.

The Administration believes that the deduction for attending foreign conventions has been abused and that current law is inadequate to deal with the problem. The Administration, therefore, opposes the Senate floor amendment which would make no change in present law.

Conference Action: The Committee adopted the Senate Finance Committee provision which would disallow a deduction for a convention held outside North America unless, on the basis of certain factors, it were more reasonable for the meeting to be held outside North America than within it. It also would disallow a deduction for a convention held on a cruise ship. The Committee decided to make the provision prospective only, effective with respect to meetings held after October 1, 1977.

47. Qualified stock options — 47. Support House provision.

Conference Action: The Committee voted to accept the House provision (with the later Senate effective date) which generally repeals qualified stock option treatment and subjects such options to the same rules as presently apply in the case of nonqualified options. The Committee directed that the Statement of Managers should report that the IRS should value options granted during the lifetime of individuals on the same basis that such options would be valued for Federal estate tax purposes. This was prompted by the concern of Senator Haskell that the IRS always assign a value of options for estate tax purposes; however, for income tax purposes the IRS will often argue that such options cannot be valued.

48. Nonbusiness guaranties — 48. Support House provision.

Discussion: Current law creates an arbitrary distinction in the treatment of guaranteed payments depending on whether the guarantor is an individual and on whether the obligation is that of a corporation.

Conference Action: The Senate Conferees accepted the House provision which would allow a taxpayer who has a loss from the guarantee of a loan to treat such loss in the same manner as if such loss arose out of the guarantor's trade or business.

49. Deduction for legislators travel expenses away from home — 49. No objection to House provision with Senate modification that the Secretary of Labor (rather than IRS) establish the daily amount of allowable living expenses.

Conference Action: Open

Title VII - Accumulation Trusts

50. Revision of Method of Taxing Accumulation Distributions on Trusts

50. Support Senate provisions.

Discussion: The Senate provisions incorporate perfecting amendments to the House bill and thus are preferable.

Conference Action: The Conferees agreed to the Senate provision.

Title VIII - Capital Formation

51. Extension of $100,000 limitation on used property

51. Support Senate provision.

Conference Action: The Senate Conferees receded from making this item permanent and, instead, adopted the House extension through December 31, 1980.

52. Extension of 10-percent investment credit

52. Support Senate provision.

Conference Action: The Senate Conferees receded from making this item permanent and, instead, adopted the House extension through December 31, 1980.

53. First-in-first-out treatment of investment credit amounts

53. Support Senate provision provided that present treatment retained for pre-1976 carryovers.

Discussion: The FIFO rule improves the incentive to further capital investment. However, present law should be retained for investment credit carryovers from pre-1976 years to prevent windfalls.

Conference Action: The House Conferees accepted the Senate provision providing for First-in-first-out treatment of investment credit carryovers. The Senate then receded on its provision extending for two additional years the carryover period for investment credits arising in 1966, which would expire (unless used) this year.

54. Extension of expiring investment tax credits

54. Oppose Senate provision.

Discussion: The provision provides a windfall for a limited number of taxpayers who have unused, expiring credits from 1966.

Conference Action: The Conferees deleted the Senate provision.

55. ESOP investment credit provision

55. Oppose Senate provision.

Discussion: The Administration supports tax incentives for broadened stock ownership which are available to all taxpayers. ESOPs are restricted to corporate employees and do not afford diversification and investment choice. In addition, as among corporate employees, ESOPs tied to the investment tax credit favor employees in capital intensive industries.

Conference Action: The Conferees accepted a compromise pursuant to which an additional investment credit of 1% would be allowed dollar-for-dollar for amounts contributed to an ESOP. An additional credit of up to 0.5% would be allowed to the employer for amounts contributed by employees to an ESOP. The special ESOP credit would apply to taxable years through 1980.

56. Retroactive regulations on Employee Stock Ownership Plans (ESOPs)

56. Oppose Senate provision.

Discussion: To the extent that Congress endorses different rules for ESOPs, it should set forth specific criteria in legislation developed after public hearings and comment.

Conference Action: The Conferees accepted a compromise concerning the Senate provision prohibiting retroactive regulations relating to ESOPs. Under the compromise, a provision would be added in the Statement of Managers detailing further the ESOP requirements.

57. Study of stock ownership expansion

57. Support Senate provision.

Conference Action: The Conferees decided that a broad based task force (rather than a Commission) should be convened to study broadening stock ownership.

58. Investment credit in the case of movie and television films

58. Support Senate provision except for "elect out".

Discussion: The provision provides a compromise investment credit for pre-'75 years in settlement of pending litigation. The "elect out" of the Senate provision frustrates the intent of the compromise to dispose of this litigation.

Conference Action: The House Conferees accepted the first two Senate provisions which delete a restriction on allowable investment credit carryovers in the case of taxpayers electing the compromise method only for pre-72 years and provides that the credit is available for educational, as well as entertainment films. The Conferees agreed to retain the Senate provision whereby certain taxpayers could "opt-out" of the legislative compromise of their investment credit dispute and continue their pending litigations. The Conferees also agreed to include participations in the investment credit base. However, a dispute arose concerning the proper amount of participations which should be included. The Conferees agreed to allow half allowed under the Senate provision.

59. Investment credit in the case of certain ships

59. Oppose Senate provision (including its retroactive effective date).

Discussion: The provision selectively overturns the general tax concept of "basis" underlying the allowance of depreciation and investment credit.

Conference Action: A compromise was agreed to pursuant to which a 5% investment tax credit (rather than the regular 10% credit) would be allowed prospectively from January 1, 1976 for vessels constructed with capital construction funds. However, taxpayers could continue to contest in court their eligibility for a full 10% credit for past and future years.

60. Small fishing vessel construction reserves

60. Oppose Senate provision.

Conference Action: The Conferees agreed to reduce the eligibility for the capital construction funds in the case of commercial fishing vessels from 5 tons to 2 tons.

61. Net operating loss carryover election

61. Support Senate provision provided that the election be made on an annual basis for the losses occurring in such year.

Conference Action: The Conferees accepted a compromise whereby taxpayers would have an election to deduct their net operating losses over two carryover periods: either three years back and then seven years forward; or seven years forward. The Conferees agreed that the carryforward period for regulated companies should be extended from the present period of seven years to nine years.

62. Limitation on trafficking in net operating loss carryovers

62. Oppose Senate provision.

Discussion: The provision would significantly alter the tax consequences of certain corporate acquisitions where one of the parties to the transaction has net operating loss carryovers. The Administration strongly recommends that no such basic changes be made without an opportunity for study and comment by the major professional associations and other interested parties. The Internal Revenue Service has indicated that the provision will be difficult to administer due to its uncertainty and complexity. These factors may also impede legitimate business transactions.

If the provision is adopted, the Administration recommends that its effective date be delayed for at least one year and that Congress invite comments and specifically undertake to make necessary substantive and technical modifications prior to its effective date.

Conference Action: The Conferees agreed to the Senate provision substantially revising the present limitations on acquisitions of corporations with net operating losses. A compromise was struck with respect to the effective date which would be delayed until January 1, 1978.

63. Credit for artist's donations of own work to charitable organizations

63. Oppose Senate provision.

Discussion: If a credit is allowed for artist's donations of his own work, the Administration prefers a 5 year holding period before the artist is eligible for such credit.

Conference Action: The Senate provision would provide a 30-percent credit for up to $35,000 in value of such work. The House Conferees expressed concern about valuation problems, and that the provision might be a precedent for charitable deductions for the value of other personal services. The Senate Conferees agreed to drop this provision.

Title IX - Small Business Provisions

64. Continuation of changes in corporate tax rates and increase in surtax exemption.

64. Support Senate provision.

Discussion: Making the tax changes permanent is part of the President's deepened tax cut proposal. Also, the extension of the tax cuts to mutual insurance companies corrects a clear drafting oversight in the Tax Reduction Act.

Conference Action: The Conferees agreed to continue the changes in the corporate tax rate and the increase in the surtax exemption until December 31, 1977. In addition, these changes would apply to mutual insurance companies.

Title X -- Changes in the Treatment of Foreign Income

65. Income earned abroad by U.S. citizens living or residing abroad

65-1. Prefer the House bill, but do not object to the Senate version.

65-2. Do not oppose the Senate provision.

Conference Action: The Conferees agreed on a compromise which would reduce the exemption from $20,000 to $15,000 for all persons and tighten the eligibility for the exemption.

66. Income tax treatment of nonresident alien individuals who are married to citizens or residents of the United States	66-1. Support. 66-2. Support. 66-3. Support the Senate provision. Effective date. Prefer Senate effective date.

Conference Action: The Senate provision was agreed to, effective for taxable years beginning after December 31, 1976. A U.S. citizen or resident married to a nonresident alien individual would now be allowed to file a joint return provided that an election is made by both individuals to be taxed on their worldwide income. Also, where the election to be taxed on worldwide income is not made, certain community property laws are to be made inapplicable for income tax purposes.

67. Foreign trusts having one or more United States beneficiaries to be taxed currently to grantor	67-1. Support. Prefer the Senate change. 67-2. Support. Effective date. Prefer Senate effective date.

Conference Action: The Senate provision was agreed to but with the House effective date of taxable years ending after December 31, 1975. Grantors of foreign trusts will be taxed currently on the income of the trust if the trust has a U.S. beneficiary.

68. Interest charge on accumulation distributions from foreign trusts	68. Support. Prefer the Senate version. Effective date. Prefer Senate effective date.

Conference Action: The Senate provision was agreed to. An interest charge in the form of an additional tax would be imposed on beneficiaries receiving taxable accumulation distributions from foreign trusts. No charge would be imposed for periods before January 1, 1977.

69. Excise tax on transfers of property to foreign persons to avoid Federal income tax

69. Support. Prefer the Senate version.

Conference Action: The Senate amendment was agreed to. An excise tax of 35% would be imposed on the amount of the unrecognized appreciation of all property transferred to foreign entities. An election to recognize gain in lieu of paying the excise tax would be permitted.

70. Amendment of provisions relating to investment in U.S. property by controlled foreign corporations

70. Support the change from present law, and prefer the Senate bill.

Effective date. Prefer Senate effective date.

Conference Action: The Senate provision was agreed to. There would be excluded from the definition of U.S. property in existing law (1) stock or debt of a domestic corporation (other than a U.S. shareholder) which is not 25% owned by the U.S. shareholders, and (2) movable drilling rigs when used on the U.S. continental shelf.

71. Shipping profits of foreign corporations

71-1. Support. Prefer the Senate version.

71-2. Oppose the House provision.

71-3. Do not oppose Senate provision.

Conference Action: The Senate provision was agreed to. There would be excluded from foreign base company income, income from shipping operations within one country if the ships are registered in that country and owned by a company which is incorporated in that country. The House provision which would have made it clear that debt obligations are taken into account in determining the amount invested in shipping assets, and the Senate provision which would have excluded from a point in a foreign country to a point offshore were not agreed to.

72. Agricultural products

72. Oppose the House provision and support the Senate bill which would make no change in present law.

Discussion: The House provision would change present law to make it more difficult to administer.

Conference Action: The Senate provision which retained current law was agreed to.

73. Requirement that foreign tax credit be determined on overall basis

73. Do not object to the elimination of the per-country limitation. Support the Senate version. Oppose the House provisions which would retain the per-country for possession source income, and delay the effective date for 3 years in the case of mining companies.

Discussion: The House provision would single out possession source income and mining companies for special treatment which discriminates against other taxpayers. The Administration cannot find any reason to single out these two classes of taxpayers for this kind of special treatment.

Conference Action: The Senate amendment was agreed to. The per-country limitation would be repealed and all taxpayers would be required to determine their foreign tax credit limitation on an overall basis. The House bill would have permanently retained the per-country limitation for possession source income and would have provided a three-year transitional rule for mining companies. The latter two provisions were not agreed to.

74. Recapture of foreign losses

74. Support the recapture of foreign losses, and prefer the Senate version.

Conference Action: The Senate provision was agreed to. Foreign losses would be recaptured through the foreign tax credit mechanism when foreign operations become profitable. The taxpayer may have more than 50% of foreign source income recaptured in any taxable year, and the proportionate foreign tax credit disallowance rule is deleted.

75. Treatment of capital gains for purposes of foreign tax credit

75. Support and prefer the Senate version.

Conference Action: The Senate provision was agreed to. In general, the foreign tax credit limitation would be modified so that net U.S. capital losses would offset net foreign capital gains, in the case of corporations, only 30/48ths of the net foreign source gain would be included in the foreign tax credit limitation, and the gain from the sale or exchange of personal property outside the United States would be considered U.S. source income unless one of three exceptions applies.

76. Foreign oil and gas extraction income

a. Transitional rule for foreign tax credit limit — 76a. Oppose the House provision.

Discussion: Generally oppose retroactive relief granted by the House provision.

b. Definition of foreign oil-related income — 76b. No objection to Senate provision.

Discussion: The Senate provision is consistent with the inclusion of interest from foreign corporations and dividends in the definition of foreign oil related income.

c. Foreign oil and gas extraction income earned by individuals — 76c. Support Senate provision.

d. Tax credit for production-sharing contracts — 76d. Do not oppose the Senate provision.

e. Reduction in amount allowed as foreign tax credit on oil extraction income — 76e-1. Support the Senate provision, with modifications.

Discussion: The Administration supports limiting the credit for oil and gas extraction taxes to 48 percent. However, the Administration recommends that the limit be computed not on a country-by-country basis, but by applying the overall limitation separately with respect to oil extraction income and other income using the regular section 904 rules for carryovers, etc.; that the definition of oil and gas extraction income be narrowed to include dividends only when they are from a foreign corporation when taxes are deemed paid with respect to those dividends; that interest be excluded from the definition.

76e-2. Oppose the Senate provision.

Discussion: The Administration opposes the attempt to define the portion of the payment to a foreign government which is a royalty. A new definition would only confuse the issue. It would raise doubts as to the applicability and the effect of recent IRS statements concerning the creditability of taxes. It would cloud the applicability of the law in non-oil and gas areas.

76. Foreign oil and gas extraction income

Conference Action: A compromise was agreed to on the Hartke amendment The amount of foreign taxes allowable as a credit with respect to foreign oil and gas extraction income would be reduced and limited to 48% on an overall, rather than a per country, basis. However, deductions for losses from extraction activities would be limited to the income from such activities.

77. Underwriting income	77. Support the Senate provision.

Conference Action: The Senate amendment was agreed to. The source of underwriting income would be the place where the risk is located.

78. Third-tier foreign tax credit when section 951 applies	78. Support Senate provision.

Conference Action: The Conferees agreed to the Senate provision providing the same foreign tax credit rules for third-tier subsidiaries as apply to second-tier subsidiaries.

79. Interest on bank deposits earned by nonresident aliens and foreign corporations	79. Support the House provision.

Discussion: The Administration strongly supports the permanent exemption which is contained in the House provision.

Conference Action: The Conferees agreed to make permanent the exemption from U.S. tax for interest earned by nonresident aliens and foreign corporations from deposits in United States banks.

80. Changes in ruling requirements under section 367; certain changes in section 1248

80-1. Strongly support the change in present law, and prefer the Senate version.

80-2. Support the change in present law, and prefer the Senate version.

80-3. Strongly support the change in present law, and prefer the Senate version.

Conference Action: The Senate provision was agreed to. The requirement of an advanced ruling in the case of foreign reorganizations would be eliminated and certain other technical changes in the treatment of the sale of stock of controlled foreign corporations was made.

81. Contiguous country branches of domestic life insurance companies

81. Do not object to either version.

Conference Action: The Senate provision was agreed to. A U.S. mutual life insurance company would be permitted to elect to account for contiguous country business separately from other business to avoid U.S. taxation on contiguous country income to the extent such income is not repatriated. The Senate provision extended this relief to stock companies selling, through contiguous country subsidiaries, policies which are similar to those sold by mutual companies.

82. Tax treatment of corporations conducting trade or business in Puerto Rico and possessions of the United States

82-1. Do not object to the change in present law. Prefer the Senate version.

82-2. Do not object.

Effective date. Prefer Senate effective date.

Conference Action: The Senate provision was agreed to. Under the provision, a qualified corporation would be entitled to a special foreign tax credit equal to the U.S. tax on gross income from sources within a possession. In addition, dividends from a possession's corporation would be eligible for the inter-corporate dividends received deduction.

83. Repeal of provisions relating to China Trade Act Corporations

83. Support the phaseout generally, and prefer the Senate version.

Conference Action: A compromise was adopted. Under the House bill, the China Trade Act Corporation provision would be phased out over a four-year period while the Senate provision provided for a two-year phase-out. The Conference action provides for three-year phase out.

84. Denial of certain tax benefits on international boycotts and bribe-produced income

84. Strongly oppose the Senate provision.

Discussion: The Senate provision is an inappropriate means of dealing with the problems of boycotts and bribes. Moreover, these provisions would create substantial administrative problems.

Conference Action: In the case of bribes the Conferees would provide for the amount of a bribe paid by a foreign corporation to be a deemed distribution to the U.S. shareholders of that corporation without any reduction in earnings and profits of the foreign corporation. A compromise on the boycott provision was accepted by the Conferees.

- The tax benefits would be disallowed only to the extent attributable to boycott activities,
- the limitations would only apply to secondary and tertiary boycotts, and
- no limitations would apply to taxpayers who comply with restrictions on exporting and importing to and from the Middle East belligerent countries.

85. Amendments affecting DISC

7. Sale or distribution of DISC stock in certain nontaxable transactions will result in recapture of accumulated DISC income.

8. Certain problems relating to double counting in the case of distributions to meet qualification requirements are eliminated.

9. The provision will be effective with respect to taxable years beginning after December 31, 1975.

Title XII - Administrative Provisions

86. Public inspection of written determinations by Internal Revenue Service	86. Support Senate provision.

Discussion: The Senate provision reflects a compromise worked out among representatives of the tax bar, the accounting profession, the Internal Revenue Service, the Treasury Department and public interest firms. Thus, the provision represents a publicly considered solution to a problem which has been the subject of extensive and costly litigation over the past several years. Certain technical matters, however, should be clarified by the Conference Committee.

onference Action: The Conferees adopted the Senate provision under which determinations made by the IRS would be made public. However, unlike the House provision, the names of the requesting taxpayers would not be disclosed.

87. Disclosure of returns and return information	87. a-c. Support Senate provisions.
a) In general	
b) Definition of returns and return information	
c) Disclosure to Congress	
d) White House (and other Federal agencies)	d-e. Support Senate provisions.
e) Civil and Criminal tax cases	
f) Nontax criminal cases	f. Oppose requirement of "probable cause" for disclosure to Justice Department and other Federal agencies of taxpayer information in nontax criminal cases. Prefer Finance Committee amendment.
g) Nontax civil matters	g-h. Support Senate provisions.
h) General Accounting Office	
i) Statistical use	i-n. Support Senate provisions with following modification: - Tax information disclosed to Federal, State and local welfare agencies should be limited to the tax information available from the IRS individual master files.
j) Other agencies - inspection on a general basis	
k) State and local governments	
l) Taxpayers with a material interest	
m) Miscellaneous disclosures	
n) Procedures and records concerning disclosure	
o) Safeguards	o-q. Support Senate provisions
p) Reports to Congress	
q) Enforcement	

87. Disclosure of returns and return information

Conference Action: The Conferees adopted the Senate provision which restricts the extent to which taxpayer information may be disclosed. The Conferees agreed to modify the Senate provision so that the Justice Department could more readily obtain tax information in non-tax criminal cases. The Conferees agreed to an amendment of section 1202(f) of the Senate provision which would allow the Justice Department access to tax information in nontax criminal cases under certain prescribed circumstances.

88. Income tax return preparers — 88. Support Senate provision.

Conference Action: The Conferees adopted the Senate provision placing specific requirements (and penalties for failure to comply) on income tax return preparers.

89. Jeopardy and Termination Assessments — 89. Support Senate provision.

Discussion: The Senate provision protects taxpayers against any abusive use of jeopardy and termination assessments, while providing more flexibility than the House provision for a mutually satisfactory disposition. Also, the Senate provision deals with the issues presented by the Supreme Court decision in Laing v. United States.

The Administration recommends that the effective date be February 28, 1977 to provide the IRS time to implement the new provision.

Conference Action: The Conferees adopted the Senate provision under which taxpayers could be afforded an opportunity to contest a jeopardy assessment of the IRS.

90. Administrative summons

90. Prefer Senate provision.

Discussion: The Administration recommends that the effective date be February 28, 1977 to provide the IRS time to implement the new provision. Certain other technical matters should be clarified by the Conference Committee.

Conference Action: The Conferees adopted the Senate provision which provides the taxpayer with a course of action to contest administrative summons issued by the IRS.

91. Assessments in case of mathematical or clerical errors

91. Support Senate provision.

Conference Action: The Conferees adopted the Senate provision providing a procedure under which a taxpayer may request abatement of an assessment attributable to mathematical or clerical errors.

92. Withholding State income taxes from military personnel

92. Support House or Senate provision.

Conference Action: The Conferees accepted the Senate provision.

93. Withholding of State or local income tax from members of the National Guard or ready reserve

93. Support Senate provision.

Conference Action: The Conferees accepted the Senate provision.

94. Voluntary withholding of State income taxes from Federal employees

94. Support Senate provision.

Conference Action: The Conferees accepted the Senate provision.

95. Definition of city for purposes of withholding

95. Enacted into law (Public Law 94-).

96. Withholding tax on certain gambling winnings

96. Support Senate provision but oppose Senate floor amendment excluding State lotteries from withholding requirements.

Conference Action: The Conferees agreed to a compromise under which a withholding tax would be imposed on winnings from State lotteries in excess of $5,000 and certain horse race winnings. The effective date would be 60 days after enactment of the bill.

97. Withholding of Federal taxes on certain individuals engaged in fishing

97. Oppose Senate provision.

Discussion: The Administration recommends that the exemption be limited to one crewman (in addition to the operator) to deal with the problem of fishermen who own their own boats and hire crewmen on an intermittent basis.

Conference Action: The Conferees agreed to the Senate provision treating as self-employed for Federal tax purposes crewmen on fishing boats with an operating crew of less than 10.

98. Voluntary withholding of State income taxes in the case of certain legislative officers and employees

98. No objection to House provision.

Conference Action: The Conferees deleted the House provision.

99. Minimum exemption from levy for wages, salary, and other income

99. Support Senate provision.

Discussion: The Administration recommends that the effective date be February 28, 1977 to provide the IRS time to implement the new provision.

Conference Action: The Conferees adopted the Senate effective date of January 1, 1977 for the establishment of a minimum amount of income exempt from levy.

100. Joint Committee Refund Cases — 100. Support Senate provision.

Discussion: The Administration recommends that the provision be made applicable to refunds submitted to Joint Committee after the date of enactment of H.R. 10612.

Conference Action: The Conferees adopted the Senate provision increasing the jurisdictional amount for Joint Committee refund cases and adding certain matters to its jurisdiction.

101. Use of Social Security numbers — 101. Support House provision.

Discussion: The Administration recommends that the use of social security numbers be limited to Federal, State and local tax administrative purposes.

Conference Action: The Conferees adopted the Senate provision expanding the use of social security numbers to include state and local taxes, driver's licenses and motor vehicle registration as well as for the purpose of locating runaway parents.

102. Interest on mathematical errors on returns prepared by IRS — 102. Support Senate provision.

Conference Action: The Conferees agreed to a compromise under which the Service would be granted authority to waive interest on mathematical errors on returns it prepared.

103. Award of Costs and Attorneys' Fees to Prevailing taxpayer — 103. Oppose Senate provision.

Discussion: With an opportunity for recovery of attorney's fees, which are not normally awarded the prevailing party in litigation, there will be a greater incentive for litigation, even though the amount involved may be small and the taxpayer's case may appear frivolous on its face.

Conference Action: The Conferees agreed to delete the Senate provision under which taxpayers, who prevailed in a civil tax litigation, could recover a maximum of $10,000 costs and legal fees in certain instances.

Title XIII - Miscellaneous Provisions

104. Certain housing associations — 104. Support Senate provision.

Conference Action: The Conferees adopted the Senate provision including the Javits amendment treating lending institutions which obtain stock in a cooperative housing corporation as a tenant-stockholder for up to three years.

105. Tax treatment of certain 1972 disaster loans — 105. Support provision with April 15, 1977 date (Senate provision) for payment of first annual installment of unpaid tax liability.

Conference Action: The Conferees adopted the provision with the April 15, 1977 date (Senate provision) for payment of the first annual installment of unpaid tax liability.

106. Worthless debts of political parties — 106. Support provision with Senate effective date.

Discussion: The Administration opposes the retroactive application of the provision provided by the House bill.

Conference Action: The Conferees adopted the provision with the Senate effective date.

107. Exemption from taxation of interest on bonds issued to finance certain student loans — 107. Oppose Senate provision.

Discussion: The Senate provision creates an undesirable precedent for the issuance of tax-exempt bonds by private corporations having only a minimal connection with governmental units. The Treasury Department has proposed regulations dealing with this question and is working on them with state and local representatives.

Conference Action: The Conferees adopted the Senate provision.

112. Exemption from manufacturers' tax for certain articles resold after certain modifications

112. No objection to Senate provision.

<u>Conference Action</u>: The Conferees adopted the Senate provision.

113. Franchise Transfers

113. Support Senate provision.

<u>Conference Action</u>: The Conferees adopted the Senate provision.

114. Clarification of an employer's duty to keep records and to record tips

114. Oppose Senate provision.

<u>Discussion</u>: Tip income has presented IRS with chronic compliance problems due to a lack of reliable records from which the correct amount of tips can be verified. The Senate provision obviates sound attempts by IRS to alleviate these problems.

<u>Conference Action</u>: The Conferees deleted the Senate provision and substituted therefor a two year moratorium on the enforcement of the Service's latest revenue rulings in this area.

115. Pollution Control Facilities: 5-year amortization and investment credit

115. Support Senate provision with certain modifications:
- section 169 should be extended only until December 31, 1980; and
- the present definition of pollution control facility and the requirement that a facility be added to a plant, etc., in operation by January 1, 1969 should be retained.

<u>Discussion</u>: As modified, the provision carries out the purpose of section 169 by accomodating further upgrading of pre-1969 plants.

<u>Conference Action</u>: Open

116. Qualification of fishing organizations as tax-exempt agricultural organizations

116. No objection to Senate provision.

Conference Action: The Conferees adopted the Senate provision providing that certain fishing organizations would be tax-exempt effective for taxable years after December 31, 1975.

117. Subchapter S corporation shareholder rules

117. Support Senate provision.

Conference Action: The Conferees adopted the Senate provision.

118. Application of section 6013(e)

118. Oppose Senate provision.

Discussion: The Senate provision extends retroactive relief to a limited number of taxpayers.

Conference Action: The Conferees adopted the Senate provision.

119. Modifications in percentage depletion for oil and gas

119-1,2. No objection to Senate provision.

-3,4. Support Senate provision.

Discussion: The Administration believes that the provisions should apply to all similarly situated taxpayers. There is no justification for the exclusion of certain trusts from these provisions.

Conference Action: The Conferees agreed to accept the Senate provision modifying the limitations on percentage depletion for oil and gas wells to more properly conform the statute with the intent of Congress in enacting the Tax Reduction Act of 1975.

120. Implementation of Federal State Tax Collection Act of 1972	120. No objection to Senate provision with certain modifications.

Discussion: The Administration opposes the provision precluding any user charge and opposes reducing from two States to one the number of States necessary to start the system.

Conference Action: The Conferees adopted the Senate provision without making the modifications recommended by the Administration.

121. Cancellation of certain student loans	121. No objection to Senate provision.

Conference Action: The Conferees adopted the Senate provision.

122. Simultaneous liquidation of parent and subsidiary corporations	122. Support Senate provision.

Discussion: The Senate provision eliminates a trap for the unwary.

Conference Action: The Conferees adopted the Senate provision.

123. Prohibition of State-Local Taxation of Certain Vessels, Barges, or Crafts Using Interstate Waterways	123. Oppose Senate provision.

Discussion: The Federal government has, over the years, imposed relatively few constraints on the power of States to impose taxes. The fact that current State practices impose record keeping and financial burdens upon barge operations is not a sufficient reason for the Federal government to prevent the States from imposing taxes on this form of transportation.

Conference Action: Open

124. Contributions in Aid of Construction for Certain Utilities

124. Oppose Senate provision.

Discussion: The Senate provision departs from the general tax principle that payments for services constitute taxable income.

Conference Action: The Conferees agreed to allow water and sewer utilities to treat as contributions to capital rather than as taxable income, the payment by third parties of the costs of installing water and sewer lines to new developments.

125. Prohibition of Discriminatory State or Local Taxes on Generation or Transmission of Electricity

125. No objection to Senate provision.

Conference Action: The Conferees adopted the Senate provision.

126. Deduction for cost of removing architectural and transportational barriers to handicapped and elderly

126. Oppose Senate provision.

Conference Action: The Conferees adopted the Senate (Senator Dole) provision.

127. Publication of statistics of income

127. No objection to Senate provision.

Conference Action: The Secretary of the Treasury is directed to publish statistics of income based on adjusted gross income and economic income.

128. Report on tax increases resulting from inflation

128. No objection to Senate provision.

Conference Action: The Conferees deleted this provision.

129. Taxation of certified historic structures

129. Support Senate provision.

Discussion: The Senate provision provides a variety of measures designed to equalize the tax treatment of new buildings and restored historic structures and has the Administration's full support.

Conference Action: The Conferees adopted this Senate provision which denies certain tax benefits (accelerated depreciation, demolition and loss deductions) to individuals who demolish historic structures.

130. Supplemental Security Income for victims of certain natural disasters

130. No objection to Senate provision.

Conference Action: The Conferees adopted this provision.

131. Exclusion of countries which aid and abet international terrorists from preferential tariff treatment

131. Oppose Senate provision.

Discussion: The trade laws are not an appropriate vehicle for solving complex foreign policy problems.

Conference Action: The Conferees adopted the Senate provision.

132. Net operating loss deduction for Cuban expropriation

132. Oppose Senate provision.

Conference Action: The Conferees adopted the Senate provision, with the proviso that this constitutes the very last extension of these net operating loss carryovers.

133. Study of tax treatment of married, single persons

133. No objection to Senate provision.

Conference Action: The Conferees deleted the Senate provision.

Title XIV - Capital Gains and Losses

134. Increase in amount of ordinary income against which capital loss may be offset

134. Support House provision.

Discussion: There has been no change in the $1,000 offset since 1942, and the economic value of this deduction has decreased significantly since that time.

Conference Action: A compromise was adopted providing that:

1. In 1977 the maximum amount of ordinary income that could be offset by capital losses would be $2,000.
2. In 1978 the maximum offset amount would rise to a permanent level of $3,000.

135. Increase in holding period for long-term capital gains

135. Support House provision.

Discussion: The reasons for distinguishing between long-term and short-term capital gains - the "bunching" problem and the need to differentiate between assets held for investment and speculation - suggest that the distinction should be drawn on the basis of one full year.

Conference Action: A compromise substantially similar to the House provision was adopted providing that:

1. In 1977 the minimum required holding period necessary to qualify gain on the sale of most capital assets for long-term capital gains tax treatment would be 9 months.
2. In 1978 the holding period for long-term capital gains treatment would rise to a permanent period of 12 months.

An exception from these changes in holding period was made for farm commodity future contracts which the Conferees decided to leave at the same 6-month period applicable under current law.

Title XV - Pension and Insurance Taxation

136. Individual retirement account (IRA) for spouse

136. No objection to Senate provision.

Discussion: The Administration recommends a broad study of retirement security which would give consideration to the future protection of housewives.

Conference Action: A compromise was agreed to pursuant to which an individual could contribute up to $1,750 to an IRA he and his spouse own jointly.

137. Limitation on contributions to certain H.R. 10 plans

137. No objection to Senate provision.

Conference Action: The Conferees adopted the Senate provision.

138. Deduction for retirement savings of private and government employees - limited employee retirement accounts

138. Support House provision.

No objection to Senate provision.

Conference Action: Open

139. Retirement deductions for members of Armed Forces Reserves and National Guard

139. Support Senate provision.

Conference Action: The Conferees adopted the Senate provision.

140. Tax-exempt annuity contracts in closed end mutual funds

140. No objection to Senate provision.

Conference Action: The Conferees adopted the Senate provision.

141. Pension fund investments in segregated asset accounts of life insurance companies

141. No objection to Senate provision.

Conference Action: The Conferees adopted the Senate provision.

142. Extension of study of salary reduction and cash or deferred profit-sharing plans

142. No objection to Senate provision.

Conference Action: The Conferees adopted the Senate provision.

143. Consolidated returns for life and mutual insurance companies

143. No objection to Senate provision.

Conference Action: Open

144. Guaranteed renewal life insurance contracts

144. Support Senate provision.

Conference Action: The Conferees adopted on a prospective basis the Senate provision which provides that the time for which a policy is issued includes the period for which the insurer guarantees that the policy is renewable.

145. Tax-free rollover in event of plan termination

145. Enacted into law (Public Law 94-267).

Conference Action: Open

Title XVI - Real Estate Investment Trusts

146. Deficiency dividend procedure

146. Support Senate provision.

Conference Action: The Conferees adopted the Senate provision.

147. Failure to meet income source tests | 147. Support Senate provision.

Conference Action: The Conferees adopted the Senate provision.

148. Treatment of property held for sale to customers | 148. Support Senate provision.

Conference Action: The Conferees adopted the Senate provision.

149. Increase in 90-percent gross income requirement to 95 percent | 149. Support Senate provision.

Conference Action: The Conferees adopted the Senate provision.

150. Change in definition of "rents from real property" | 150. Support Senate provision.

Conference Action: The Conferees adopted the Senate provision.

151. Change in distribution requirements | 151. Support Senate provision.

Conference Action: The Conferees adopted the Senate provision.

152. Manner and effect of termination or revocation of election | 152. Support Senate provision.

Conference Action: The Conferees adopted the Senate provision.

153. Excise tax on distribution made after taxable year | 153. Support.

Conference Action: The Conferees adopted the Senate provision.

154. Allowance of net operating loss carryover — 154. Support Senate provision.

Conference Action: The Conferees adopted the Senate provision.

155. Alternative tax in case of Capital Gains — 155. Support Senate provision.

Discussion: The Senate provisions incorporate perfecting amendments to the House bill and thus are preferable.

Conference Action: The Conferees adopted the Senate provision.

Title XVII - Railroad Provisions

156. Amortization of track accounts — 156. Oppose Senate provision.

Discussion: The retirement-replacement method of accounting for depreciation of track already provides significant advantages to railroads.

Conference Action: The Conferees agreed to delete the provision allowing railroads to write off their track costs faster (10 years) than under present law.

157. Railroad ties — 157. Support Senate provision (other than the Senate floor amendment of Senator Stone).

Discussion: The Finance Committee amendment provides a more uniform application of the retirement-replacement method of accounting than the House provision or the Senate floor amendment.

Conference Action: The Conferees agreed to the Senate provision providing special expensing rules for certain improved railroad ties. They also adopted the Stone amendment allowing an immediate write-off for the full cost of certain replacement ties.

158. Investment credit for railroads 158. Oppose Senate provision.

Discussion: The problems of railroads and airlines are fundamental. Therefore, meaningful assistance to these industries should be provided by means other than special changes in long-established tax principles governing the investment credit.

Conference Action: The Conferees adopted in slightly modified form the Senate provisions which Treasury opposed. As adopted the provisions would:

1. Allow railroads and airlines investment credits up to 100% of tax liability (instead of 50% under current law) for 1976 and 1977.
2. The percentage would decline by 10% each year after 1977 until it returned to 50%.
3. The "flow through" of the investment credit to leasees would be prohibited.

159. Investment credit for airlines 159. Oppose Senate provision.

Discussion: See discussion under #158.

Conference Action: The Conferees adopted in slightly modified form the Senate provisions which Treasury opposed. As adopted the provisions would:

1. Allow railroads and airlines investment credits up to 100% of tax liability (instead of 50% under current law) for 1976 and 1977.
2. The percentage would decline by 10% each year after 1977 until it returned to 50%.
3. The "flow through" of the investment credit to leasees would be prohibited.

Title XVIII - Tax Credit for Home Garden Tools

160. Home garden tool credit 160. Oppose House provision.

Conference Action: The Conferees deleted the House provision.

Title XIX - Repeal and Revision of Obsolete, Rarely Used, Etc., Provisions of Internal Revenue Code of 1954

161. "Deadwood" provisions — 161. Support provision.

Discussion: The Administration recommends a clarifying amendment to the definition of "Secretary or his delegate".

Conference Action: The Conferees adopted the provision with the Administration recommendation.

FINAL EVALUATION: Acceptable/Significant

Title XX - Energy-Related Provisions

162-176 - The energy-related provisions were deleted from the bill. The provisions are to be the subject of a separate bill.

Title XXI - Tax Exempt Organizations

177. Modification of self-dealing transitional rules in 1969 Act relating to leased property — 177. No objection to Senate provision.

Conference Action: The Conferees adopted the Senate provision.

178. Private foundation set-asides — 178. No objection to Senate provision.

Conference Action: The Conferees adopted the Senate provision.

179. Mandatory payout rate for private foundations

179. Support Senate provision.

Discussion: The present fluctuating payout rate is steadily eroding the endowments of private foundations.

Conference Action: The Conferees accepted the Senate provision reducing the mandatory payout rate to 5%.

180. Extension of Time to Amend Charitable Remainder Trust Governing Instrument

180. No objection to Senate provision.

Conference Action: The Conferees adopted the Senate provision, with the provisio that the extension is the very last.

181. Reduction of private foundation excise tax on investment income

181. Support Senate provision.

Discussion: The excise tax should be limited to the amount required to cover the cost of auditing exempt organizations. The 2% rate of the Senate provision will cover such costs.

Conference Action: The Conferees deleted the Senate provision which would have reduced the excise tax on private foundations from 4% to 2%.

182. Unrelated trade or business income of trade shows, State fairs, etc.

182. Oppose Senate provision.

Discussion: The Administration would have no objection to an exemption for trade shows that did not change the qualification requirements for exempt organizations.

Conference Action: The Conferees accepted the Senate provision exempting from the unrelated business income tax fairs and expositions and accepted a modified version of the Senate provision providing a similar exemption for conventions and trade shows. The latter provision would be effective on a prospective basis only.

183. Declaratory judgments regarding tax-exempt status as charitable etc., organization

183. Support Senate provision with House effective date.

Conference Action: The Conferees adopted the Senate provision, including the Senate effective date.

184. Provision for establishment of alcoholism trust fund

184. Oppose Senate provision.

Conference Action: The Conferees agreed to delete the Senate provision establishing an Alcoholism Trust Fund.

185. Exclusion of certain companion sitting placement services from employment tax requirements

185. No objection to Senate provision.

Conference Action: The Conferees agreed to delete the Senate provision with a comment in the Statement of Managers that the IRS should not enforce its revenue ruling on babysitters for one year to give it time to study the general problem of employer v. independent contractors.

186. Minimum distribution requirements to include miscellaneous distributions

186. Oppose Senate provision.

Discussion: The special rule for distributions of $200 or less for "civic or community activities" should be clarified to cover only those activities in furtherance of charitable purposes.

Conference Action: The Conferees deleted the Senate provision.

Title XXII - Estate and Gift Tax Provisions

187-208 - (Open)

Title XXIII - Other Amendments

209. Outdoor advertising displays — 209. No objection to Senate provision.

Conference Action: The Conferees agreed to the Senate provision providing an irrevocable election for taxpayers to treat certain outdoor advertising displays as real property for purposes of the condemnation provisions of the Internal Revenue Code.

210. Tax treatment of large cigars — 210. Support Senate provision.

Discussion: If the bracket rate were changed to 10%, rather than 8-1/2% (the Senate provision), there would be no revenue loss and administration of the tax would be facilitated.

Conference Action: The Conferees adopted the Senate provision, but did not accept the Administration's recommendation.

211. Gain from sales or exchanges between related parties — 211. Support Senate provision.

Conference Action: The Conferees adopted the Senate provision.

212. Uniformed Services Health Professions Scholarships — 212. Support Senate provision.

Discussion: The Administration supports the floor amendment by Senator Ford which was adopted by the Senate.

Conference Action: The Conferees adopted the Senate provision.

213. Tax counseling for the elderly — 213. Oppose Senate provision.

Discussion: Special tax assistance for the elderly is unnecessary in light of the IRS' current, effective taxpayer assistance program. Also, the provision for tax-free reimbursement of expenses furthers the proliferation of statutory exemptions in the tax code.

Conference Action: The Conferees deleted the Senate provision.

218. Increase in number of Commissioners — 218. Oppose the Senate provision.

Discussion: The Administration would support reducing the number of Commissioners from six to five.

Conference Action: The Conferees deleted the Senate provision.

219. Authorization of appropriations — 219. No objection to Senate provision.

Conference Action: The Conferees deleted the Senate provision.

220. Administration of the Commission — 220. Support Senate provision.

Conference Action: The Conferees deleted the Senate provision.

221. Continuation of reports with respect to synthetic organic chemicals — 221. No objection to Senate provision.

Conference Action: The Conferees deleted the Senate provision.

Title XXV

222. Contributions of certain Government publications — 222. No objection to Senate provision.

Conference Action: The Conferees adopted the Senate provision.

223. Lobbying by public charities — 223. Support Senate provision.

Conference Action: The Conferees adopted the Senate provision.

224. Tax liens, etc., not to constitute "acquisition indebtedness"

224. No objection to Senate provision.

Discussion: The Administration recommends technical revisions to the Senate provision to ensure that it applies only to special assessments of a type normally made by a State or local governmental unit or instrumentality and cannot be utilized as a device for financing improvements to an exempt organization's property.

Conference Action: The Conferees adopted the Senate provision.

225. Extension of private foundation transitional rule for sale of business holdings

225. No objection to Senate provision.

Conference Action: The Conferees adopted the Senate provision.

226. Private operating foundations; Imputed interest; Libraries and museums

226. No objection to Senate provision except for the exemption of libraries and museums from the section 4940 tax.

Discussion: The exemption for libraries and museums from the audit fee tax has no real justification. It creates another species of foundation which is especially difficult to define.

Conference Action: The Conferees agreed to the Senate provision excluding from net income amounts of imputed interest on sales made prior to January 1, 1970. They also agreed to delete the provision providing a 5% payout rule for libraries and museums and the reduction in the amount that a private operating foundation must spend for charitable purposes to 3 percent of its noncharitable assets.

227. Study of tax incentives

227. No objection to Senate provision.

Conference Action: The Conferees adopted the Senate provision.

Title XXVI - Other Miscellaneous Amendments

228. Credit for certain education expenses — 228.

Conference Action: The Conferees agreed to drop this Senate provision which would have provided limited credits for expenses incurred by full-time students in undergraduate degree or vocational certification programs.

229. Interest on certain governmental obligations for hospital construction — 229. Oppose Senate provision.

Discussion: This selective expansion of current law is not warranted - private hospitals will invest only where a profit is expected. The precedent is bad - other private businesses will seek similar treatment, and such proliferation of tax-exempt industrial development bonds would adversely affect state and local borrowing.

Conference Action: Open

230. Group prepaid legal services — 230. Oppose Senate provision.

Discussion: The Senate provision is contrary to the well-established tax principle that deductions for personal expenses are generally not allowed.

Conference Action: The Conferees adopted the Senate provision excluding from income employer contributions and benefits received under qualified group legal services plans. The provision would be prospective and extend for only five years with the Treasury and Labor required to report in four years on the provision.

231. Unrelated business income from services provided by a tax-exempt hospital to other tax-exempt hospitals

231. Oppose Senate provision.

Discussion: The Senate provision will allow certain hospitals to engage in the business of selling services to other hospitals in competition with commercial operators. No provision is made for passing savings on to small hospitals who may be charged more than cost for the services provided. Thus, the Administration opposes this provision.

Conference Action: The Conferees accepted the Senate provision exempting from the unrelated trade or business tax the income of tax-exempt hospitals received for providing certain services to small hospitals. A modification that such services must be provided at cost was agreed to.

232. Clinical services of cooperative hospitals

232. No objection to Senate provision.

Conference Action: The Conferees agreed to the Senate provision allowing clinical services to be performed by a tax-exempt cooperative service organization.

233. Certain charitable contributions of inventory

233. No objection to Senate provision.

Discussion: The limitation of the maximum deduction to twice the manufacturer's basis for the property ensures that a company cannot profit by manufacturing solely to make charitable contributions.

Conference Action: The Conferees agreed to allow corporations a deduction when food, clothing, medical equipment, etc. is donated to charity.

Title XXVII - Additional Floor Amendments

234. Tax credit for expenses for certain amateur athletes — 234. Oppose Senate provision.

Discussion: The President's Commission on Amateur Athletics has been requested by the President to study further the issue of incentives for amateur athletes. Any tax relief at this time is, therefore, premature.

Conference Action: A compromise was agreed to. The Conferees accepted the Senate provision making tax-exempt organizations whose primary purpose is to foster national and international sports competition and deleted the tax credit for certain costs incurred by individuals in participating in certain athletic competitions.

35. Exemption of certain amateur athletic organizations from tax — 235. Oppose Senate provision.

Discussion: See discussion #234.

Conference Action: A compromise was agreed to. The Conferees accepted the Senate provision making tax-exempt organizations whose primary purpose is to foster national and international sports competition and deleted the tax credit for certain costs incurred by individuals in participating in certain athletic competitions.

.36. Taxable Status of Pension Benefit Guaranty Corporation — 236. Support Senate provision.

Discussion: The Senate provision rectifies an apparent oversight in the ERISA legislation.

Conference Action: The Conferees adopted the Senate provision.

-37. Level premium plans covering owner-employees — 237. No objection to Senate provision.

Conference Action: The Conferees adopted the Senate provision.

238. Lump-sum distributions from pension plans

238. No objection to Senate provision.

Conference Action: The Conferees agreed to the Senate provision allowing taxpayers to treat certain lump sum distributions as ordinary income, with a 10 year income averaging rule.

239. Tax treatment of the grantor of certain options

239. Support H.R. 12224 with Senate September 1, 1976 effective date.

Discussion: In order to avoid uncertainty for current transactions, it would be appropriate to adopt a date of enactment effective date.

Conference Action: The Conferees agreed to H.R. 12224, which provides that gain from the lapse of an option and gain or loss from a closing transaction in options should be treated as short term capital gain or loss, effective for options written after September 1, 1976.

240. Exempt-interest dividends of regulated investment companies

240. No objection to Senate provision.

Discussion: Will enable investors with limited funds to acquire tax-exempt bonds, thus helping to provide a more efficient market for state and local obligations.

Conference Action: The Conferees adopted this Senate provision which permits tax-exempt interest to "flow-through" mutual funds to their shareholders.

241. Commission on tax simplification and modernization

241. No objection to Senate provision.

Conference Action: The Conferees agreed to delete the Senate provision.

242. Common trust fund treatment of certain custodial accounts

242. Support Senate provision.

Conference Action: The Conferees adopted the Senate provision.

243. Oil and Gas Depletion Rules Relating to Transfers of Proven Property

243. No objection to Senate provision.

Conference Action: The Conferees adopted the Senate provision.

244. Support test for dependent children of separated or divorced parents

244. No objection to Senate provision.

Conference Action: The Conferees adopted the Senate provision.

245. Deferral of gain on involuntary conversion of real property

245. Oppose Senate provision.

Conference Action: A compromise was agreed to. The provision which would remove the "like kind" requirement for replacement real estate property was deleted. However, the Conferees agreed to extend the period to three years (from 2 years) within which replacement real property could be purchased to prevent the recognition of gain.

246. Exclusion from gross income of gain from sale of residence by taxpayer who has attained age 65

246. Support Senate provision.

Conference Action: The Conferees agreed to the Senate provision increasing from $20,000 to $35,000 the amount of gain elderly taxpayers could exclude from income on the sale of their principle residence.

247. Exemption from taxation for certain mutual deposit guarantee funds

247. Support Senate provision.

Discussion: The January 1, 1969 limitation should be deleted. Otherwise, the provision will have to be further amended for corporations organized after 1968. The Administration prefers the approach taken in H.R. 13532 (94th Cong., 2d Session).

Conference Action: The Conferees deleted the Senate provision and agreed to put the provision in a separate bill.

248. Additional changes in subchapter S shareholder rules

248. Support Senate provision.

Conference Action: The Conferees adopted the Senate provision.

249. Individual retirement accounts for volunteer firemen

249. No objection to Senate provision.

Conference Action: The Conferees adopted the Senate amendment, with a modification that the benefit from the private plan not exceed $150 per month.

250. Optional taxable year of inclusion for sale of livestock on account of drought

250. Oppose Senate provision.

Discussion: The present tax deferral rules with respect to livestock provided by section 1033 of the Internal Revenue Code provide adequate relief for farmers in drought areas.

Conference Action: The Conferees agreed to the Senate provision pursuant to which cash method farmers could defer for one year income from livestock sold on account of drought conditions.

251. Sense of the Senate regarding revenue loss of bill in conference

251. ------

Conference Action: Open

SEPTEMBER 7, 1976

Tax Reform Act of 1976 (HR 10612)
Evaluation of Conference Committee Action

Good: Significant (S) and Not Significant (NS) items
Bad: Significant (S) and Not Significant (NS) items
Indifferent: (Indif.)

	Good S	Good NS	Bad S	Bad NS	Indif.
Titles I and II LAL and other tax shelter provisions					
1 - 30 (open issues)					
Title III Minimum and Maximum Tax					
31 - 33 (open issues)					
Title IV Individual Tax Reductions					
34 Per capita tax credit of $35 through 1977			x		
35 Standard deduction - Revenue Adjustment Act of 1975 increases made permanent	x				
36 Earned income credit extended through 1977			x		
37 Refunds from earned income credit are to be disregarded in determining eligibiliy for assistance benefits					x
Title V Tax Simplification					
38 Alimony is made an above-the-line deduction		x			
39 Child care expense (open issue)					
40 Sick pay (open issue)					
41 Moving expenses - increases from $2,500 to $3,000 deduction for househunting expenses. Special rules for military		x			
42 Tax simplification study by Joint Committee					X
43 Deleted from bill. Treasury simplification study	-	-	-	-	-

		Good		Bad		Indif.
		S	NS	S	NS	
Title VI	Business-related individual provisions					
44	Deduction for business use of homes - tightened		x			
45	Deduction for expenses of rented vacation homes - tightened		x			
46	Deduction for attending foreign conventions- tightened		x			
47	Repeal qualified stock option rules		x			
48	Ordinary loss treatment of nonbusiness loan guarantees		x			
49	Legislators' travel expenses (open issue)					
Title VII	Accumulation trusts					
50	Accumulation trusts - Improvement of throwback rules		x			
Title VIII	Capital formation					
51	Investment credit - used property limit of $100,000 extended through 1980 (The Administration urged a permanent extension.)	x				
52	10 percent investment credit extended through 1980 (The Administration urged a permanent extension.)	x				
53	FIFO use of investment credit carryovers	x				
54	Deleted from bill: Extension of expiring investment credits	-	-	-	-	-
55	ESOP - 1 percent investment credit plus 0.5% if employees contribute equal amount - apply through 1980				x	
56	Deleted from bill: prohibition of certain ESOP regulations	-	-	-	-	-
57	Task force to study stock ownership expansion					x

	Good S	Good NS	Bad S	Bad NS	Indif.
58 Investment credit for movies		x			
59 5 percent investment credit for vessels constructed with money from tax-free capital construction fund				x	
60 Eligibility for capital construction fund benefits extended from 5 ton to 2 ton commercial fishing vessels				x	
61 Net operating losses: election to use for seven years forward or for three years back and seven years forward		x			
62 Tighten rules to prevent trafficking in operating loss carryovers	x				
63 Deleted from bill: credit for artist's donation of art works to charity	-	-	-	-	-
Title IX Small Business provisions					
64 Continues corporate tax rate reduction and surtax exemption increase through 1977 (The Administration urged a permanent extension.)	x				
Title X Changes in the treatment of foreign income					
65 Exemption of income earned abroad - tightened and reduced from $20,000 to $15,000		x			
66 Joint returns may be filed by U.S. citizen married to nonresident alien		x			
67 Foreign trust income taxed to grantor where beneficiary is U.S. person	x				
68 Accumulation distribution of foreign trust bears additional tax equivalent to interest		x			
69 Unrecognized appreciation in assets transferred to foreign entities subject to increased excise tax or, at taxpayer's option, to income tax on the gain		x			
70 Investment in U.S. property by controlled foreign corporations: permits portfolio investments and investments in certain drilling rigs		x			

		Good		Bad		Indif.
		S	NS	S	NS	
71	Shipping profits of foreign corporations - provisions eased		x			
72	Deleted from bill: would have changed and made difficult to administer rules re base company sales income derived from sales of agricultural products not grown in the U.S.	-	-	-	-	-
73	Foreign tax credit determined on overall basis - per country limitation repealed (some questions may still be open)		x			
74	Permits recapture of foreign losses (transition rules for U.S. posessions and Puerto Rico may still be open)		x			
75	Refinement of foreign tax credit computation in the case of capital gains		x			
76	Foreign oil and gas extraction income - 48 percent cap on foreign tax credit		x			
77	The source of underwriting income is the place of risk		x			
78	Foreign tax credit rules of 2nd tier subs apply also to 3rd tier subs		x			
79	Tax exemption is made permanent for interest on bank deposits of foreign owners	x				
80	Transfers to foreign corporations no longer require advance IRS ruling	x				
81	Income from contiguous country branches of domestic life insurance companies not taxed until repatriated					x
82	Improve tax treatment of corporations conducting business in Puerto Rico and U.S. possessions		x			
83	Repeal provisions relative to China Trade Act corporations - 3 year phase out		x			
84	Denies benefits of DISC, deferral and foreign tax credit to taxpayers participating in Arab boycott of Isreal Foreign bribes deemed a distribution to U.S. parent company and may not reduce earnings and profits of foreign subsidiary.			x		

	Good S	Good NS	Bad S	Bad NS	Indif.
Title XI DISC					
85 DISC - incremental approach adopted. About 2/3 of DISC benefits preserved. Only 1/2 military sales qualify. Agricultural products qualify			x		
Title XII Administrative provisions					
86 Publication of private IRS rulings. Taxpayers names not to be disclosed	X				
87 Disclosure of tax return information restricted. Justice Department access prescribed in nontax criminal cases	x				
88 Income tax return preparers - requirements imposed		x			
89 Jeopardy assessment procedures modified - taxpayers afforded opportunity to contest	x				
90 Administrative 3rd party summons: taxpayers are given right to contest. Justice Dept. objects			x		
91 Tax abatement can be requested by taxpayer whose assessments due to math or clerical error		x			
92 Requires Federal withholding of state income taxes from military personnel					x
93 Requires Federal withholding of state and local income taxes from National Guard or Ready Reserve					x
94 Permits Federal withholding of state income taxes from Federal employees so requesting					x
95 Definition of City for purposes of withholding - already enacted - PL 94-355	-	-	-	-	-
96 Withholding on winnings from state lotteries over $5,000 and certain horse race winnings	x				
97 Self employment status (no withholding) for crewmen on fishing boats with crew less than 10				x	

No.	Provision	Good S	Good NS	Bad S	Bad NS	Indif.
98	Deleted from bill: withholding of state income tax for certain legislative officers and employees	-	-	-	-	-
99	Minimum amount exempt from levy - $50/week plus $15 per dependent		x			
100	Jurisdictional amount for Joint Committee referred cases raised from $100,000 to $200,000		x			
101	Social Security numbers can be used for state and local tax administration, drivers licences, motor vehicle registration and for locating runaway parents			x		
102	IRS has authority to waive interest on math errors on returns prepared by IRS		x			
103	Deleted from bill: award of costs and attorney fees (max, $10,000) to taxpayers who win tax litigation	-	-	-	-	-
Title XIII	Miscellaneous provisions					
104	Cooperative housing corporation treated as tax-exempt with respect to its membership dues and assessments. Also, lending institutions which obtain stock in such a company through foreclosure treated as a tennant-stockholder for up to 3 years		x			
105	Defer due date of tax owed on certain 1972 disaster relief payments					x
106	Allows deduction for certain types of worthless debts owed by political parties		x			
107	Exemption from tax of interest on bonds issued to finance certain student loans				x	
108	Pre-publication expenses of publishers (open issue)					
109	Income from intangible property leased with tangible property is rent, not royalty income for personal holding company purposes		x			
110	Accelerates and expands work incentive credit (WIN)				x	
111	Repeal excise tax on certain parts for light duty trucks		x			

No.	Item	Good S	Good NS	Bad S	Bad NS	Indif.
112	Exemption from manufacturers' excise tax for certain articles resold after certain modifications		x			
113	Apply to partnerships the same tax rule applied to proprietorships on transfer of franchises		x			
114	Deleted from bill: Reversal of IRS ruling on employer reporting of tip income (IRS to defer for 2 yrs enforcement of this ruling)	-	-	-	-	-
115	Pollution control facilities - 5 year amortization and investment credit (open issue)					
116	Defines as "agricultural" the harvesting of aquatic resources, thus permitting a fishing organization to be a tax exempt agricultural organization and to receive lower postal rates					x
117	Subchapter S corporation maximum stockholders increased from 10 to 15. See also item 248		x			
118	Innocent spouse relief provision enacted in 1971 would be made retroactive to 1962 (Relief afforded to one taxpayer)				x	
119	Ease the limitations on percentage depletion in the case of certain retail sales and intra-family transfers - The 1975 statute left these items unclear		x			
120	Make it easier for states to "piggyback" the federal tax provisions		x			
121	Discharge of certain student loans will not be taxed as income					x
122	Tax benefit of 1 year corporate liquidation extended to simultaneous liquidation of controlled subsidiary		x			
123	Prohibits state taxation of barges using navigable waters (open issue)					
124	Contributions to water and sewer utilities in aid of construction will not be taxable to them			x		
125	Prohibits states from taxing generation or transmission of electricity if it is discriminatory against out-of-state users					x

No.	Provision	Good S	Good NS	Bad S	Bad NS	Indif.
126	Provides deduction for cost of removing architectural and transportational barriers to handicapped and elderly (Senator Dole proposal)				x	
127	Statistics of Income published by Treasury must show adjusted gross income and economic income					x
128	Deleted from bill: report on tax increases resulting from inflation	-	-	-	-	-
129	Historic structures - tax benefits provided for rehabilitation of, and tax advantages denied to taxpayers who demolish, historic structures		x			
130	Supplemental Security Income is continued unreduced for an additional 12-months for certain disaster victims					x
131	Exclusion of countries which aid and abet international terrorists from preferential tariff treatment				x	
132	Extends net operating loss carryover period for 5 additional years (to total of 20 years) in case of losses attributable to Cuban expropriation				x	
133	Deleted from bill: study of tax treatment of married and single persons	-	-	-	-	-
	Title XIV Capital Gains and Losses					
134	Increase from $1,000 to $2,000 in 1977 and to $3,000 in 1978 the amount of ordinary income against which capital losses may be offset		x			
135	Increase holding period for long-term capital gains to 9 months in 1977 and to 12 months in 1978. The 6 month period continues for farm commodity futures contracts. (The sliding scale provision was not in conference; was in neither the House nor Senate bill)				x	
	Title XV Pension and Insurance Taxation					
136	Individual retirement account (IRA) made available for spouse: $1,750 for worker and spouse jointly		x			

No.	Provision	Good S	Good NS	Bad S	Bad NS	Indif.
137	HR 10 plan percentage limitations will not apply where adjusted gross income does not exceed $15,000					x
138	IRA made available to persons inadequately covered by an employer plan; and to certain participants in a government plan (open issue)					
139	Members of Armed Forces Reserves and National Guard may qualify for an IRA		x			
140	Contributions for tax-sheltered annuities can be made to closed-end investment companies as well as to open-end mutual funds					x
141	Allows a pension fund to invest in a segregated asset account in lieu of a trust					x
142	Extend to 1978 a Congressional study of salary reduction plans; meanwhile freeze status quo for plans established before June 27, 1974					x
143	Permit consolidated returns of life insurance companies with non-life companies (open issue)					
144	For taxation of life insurance companies, the time for which a policy is issued or renewed includes the period for which the insurer guarantees renewability					x
145	No provision - separate legislation (PL 94-267). Pension Plan rollover to IRA	-	-	-	-	-
Title XVI	Real Estate Investment Trusts					
146-155	Real estate investment trusts - technical amendments - no controversy	x				
Title XVII	Railroad Provisions					
156	Deleted from bill: 10-year amortization of railroad track materials and installation costs.	-	-	-	-	-
157	Special expensing rules for improved railroad ties		x			

	Good S	Good NS	Bad S	Bad NS	Indif.
158 Railroads may use investment credits up to 100 percent of tax liability (instead of 50 percent under current law) for 1976 and 1977, declining 10 percent per year after 1977 until returned to 50 percent in 1982			x		
159 Airlines, same use of investment credit as #158 for railroads			x		
Title XVIII Tax Credit for Home Garden Tools					
160 Deleted from bill: 7 percent investment credit for first $100 of garden tool expenses	-	-	-	-	-
Title XIX Repeal of Obsolete Provisions					
161 "Deadwood" provisions adopted, including clarified definition of "Secretary or his delegate"	x				
Title XX Energy Related Provisions					
162-176 Energy-related provisions were deleted from the bill. To be the subject of a separate bill	-	-	-	-	-
Title XXI Tax Exempt Organizations					
177 Technical easing of self-dealing rules of private foundations relating to property leased to certain disqualified persons					x
178 Permits private foundation "set-asides" without prior IRS approval under temporary, relaxed rules					x
179 Reduces to 5 percent the mandatory payout requirement of private foundations	x				
180 Extends from December 31, 1975 to December 31, 1977 time in which to modify charitable bequests to qualify for charitable remainder deduction					x
181 Deleted from bill: reduce from 4 percent to 2 percent excise tax on investment income of private foundations	-	-	-	-	-

No.	Provision	Good S	Good NS	Bad S	Bad NS	Indif.
182	Exempts from unrelated business income tax the income from fairs and expositions which promote certain public entertainment activities; also exempts income from certain conventions and trade shows		x			
183	Charitable organization may bring suit to determine its right to tax exemption as a charity	x				
184	Deleted from bill: establishment of alcoholism trust fund	-	-	-	-	-
185	Deleted from bill: babysitters as independent contractors and not employees of placement agency	-	-	-	-	-
186	Deleted from bill: private foundation qualifying distributions could include $200 to unincorporated groups for charitable, civic or community activities	-	-	-	-	-
	Title XXII Estate and Gift Tax Provisions					
187-208	Estate and gift tax (open issue)					
	Title XXIII Other Amendments					
209	Gain on condemnation of outdoor advertising displays need not be recognized if proceeds are reinvested in real property					x
210	Changes bracket system to an ad valorem excise tax on certain cigars					x
211	Broadens the circumstances denying capital gain treatment on sales between related parties: includes commonly controlled corporations; parents; adult children; trusts, estate or partnership in which taxpayer is a beneficiary or partner		x			
212	Excludes from income through 1979 amounts received under Armed Forces Health Professions Scholarship Program by members participating in program in 1976					x
213	Deleted from bill: tax counseling for the elderly	-	-	-	-	-
214	Deleted from bill: Commission on value added tax	-	-	-	-	-

	Good		Bad		Indif.
	S	NS	S	NS	
215 Exchange funds - Tax-free transfers to partnership and trust funds prohibited	x				
216 Allows distributions of previously taxed income to shareholders of subchapter S corporations before such shareholders will have taxable income from distributions attributable to E & P arising from accelerated depreciation		x			
Title XXIV U.S. International Trade Commission					
217 International Trade Commission voting procedure clarified - not tax policy issue					
218-221 Deleted from bill: These items to be in separate bill	-	-	-	-	-
Title XXV Additional Miscellaneous Amendments					
222 Government publications received by taxpayers without charge will not be treated as capital assets					x
223 Permits lobbying by public charities (other than churches), subject to certain expenditure tests		x			
224 Exempt organizations: "acquisition indebtedness" does not include indebtedness for state and local taxes secured by a lien on the property until due and payable and the organization has had the opportunity to pay them					x
225 Extends transitional rule for sale of certain non-excess business holdings to disqualified persons					x
226 Excludes from a private foundation's net income amounts of imputed interest on sales made before January 1, 1970					x
227 Joint Committee and Treasury to study tax incentives					x
Title XXVI Other Miscellaneous Amendments					
228 Deleted from bill: credit for college tuition expenses	-	-	-	-	-
229 The $5 million small issue exemption increased to $20 million for private hospitals. (Open issue)					

No.	Item	Good S	Good NS	Bad S	Bad NS	Indif.
230	Contributions to and benefits under qualified group legal services will be excluded from employee's income. Applies for 5 years only - Treasury and Labor to report in 4 years on its effectiveness				x	
231	Tax-exempt hospitals not taxed on unrelated income received for providing certain services to small hospitals, if provided at cost					x
232	Adds clinical services to services permitted to be performed by cooperative service organizations					x
233	Permits corporations to deduct certain donations to public charity limited to basis of donated property plus 1/2 of appreciation of inventory property but not to exceed twice its basis					x
Title XXVII	Additional Senate Floor Amendments					
234	Deleted from bill: tax credit for certain costs of individuals participating in major national or international sports competitions	-	-	-	-	-
235	Establishes tax-exempt status for organizations whose primary purpose is to foster national and international amateur sports competition		x			
236	Provides that Pension Benefit Guaranty Corp. is to be exempt from all federal taxes except social security and unemployment taxes		x			
237	Allows owner-employee of HR 10 plan to make level annuity contract payments without regard to the overall 25 percent limitation		x			
238	Permits taxpayer to treat certain lump sum pension distributions as ordinary income with the 10 year income averaging rule		x			
239	Treats gain from lapse of an option and gain or loss from a closing transaction in options to be treated as short-term capital gain or loss, not as ordinary income or loss (H.R. 12224)	x				
240	Permits "flow-through" of tax-exempt interest to shareholders of mutual funds		x			

No.	Item	Good S	Good NS	Bad S	Bad NS	Indif.
241	Deleted from bill: establishment of Commission on Tax Simplification and Modernization	-	-	-	-	-
242	Extends common trust fund treatment to custodial accounts, such as uniform gifts to minors act accounts		x			
243	Permits depletion to be retained on property transferred between certain controlled groups		x			
244	Allows noncustodial parent to receive exemption for child if he or she contributes at least $1,200 for such child					x
245	Extends to 3 years (previously 2 years) period within which replacement real property can be purchased to prevent recognition of gain on involuntary conversion of real property. Deleted proposal to remove the "like kind" requirement for such replacement property					x
246	Increases to $35,000 (previously $20,000) amount of gain elderly taxpayers can exclude from income on sale of principal residence		x			
247	Deleted from bill: exemption from tax for certain mutual deposit guarantee funds	-	-	-	-	-
248	In counting the permitted number of shareholders for subchapter S corporations, a spouse and estate of deceased spouse will be one if both would have counted as one before spouse's death. Grantor trusts and voting trusts are eligible shareholders. Eases present law on termination of subchapter S election. See also item 117.		x			
249	Extends IRA availability to members of voluntary fire departments if their pension benefit from private plans does not exceed $150 per month					x
250	Permits cash method farmers to defer for one year income from livestock sold on account of drought conditions				x	

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 8, 1976

To Heads of Bureaus

Department of the Treasury

SUBJECT: Designation of Deputy Director, Acting Assistant Director (Real Property Management), and Acting Assistant Director (Paperwork Management)

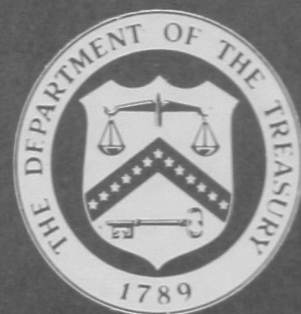
Mr. Edward W. Brooks has been designated as Deputy Director, Office of Administrative Programs, Office of the Secretary effective August 29, 1976.

Due to the temporary vacancies in the positions of Assistant Director (Real Property Management) and Assistant Director (Paperwork Management), the following individuals are authorized to act in the positions indicated effective immediately:

Acting Assistant Director (Real Property Management)	Robert T. Harper
Acting Assistant Director (Paperwork Management)	Howard S. Smith

Robert R. Fredlund
Director of Administrative Programs

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



Contact Larry Hanks
964-5512

FOR IMMEDIATE RELEASE September 8, 1976

EMERGENCY LOAN GUARANTEE BOARD CONSENTS TO LOCKHEED FINANCIAL RESTRUCTURING PLAN

The Emergency Loan Guarantee Board today consented to the amendments to the 1971 Agreement between Lockheed and its Lending Banks to permit the implementation of a financial restructuring plan for Lockheed.

The Board also today approved changes in the 1971 Agreement to incorporate, as part of the Guarantee Agreement, prohibitions on improper payments in connection with the use of foreign consultants and the maintenance of funds outside normal channels of corporate accountability.

With regard to the refinancing plan, the Board noted that it represented the completion, with modifications, of a refinancing plan approved by the Board in 1975, which was not fully implemented because of disclosures concerning improper payments. The essential elements of the presently proposed financial restructuring plan are:

1. Conversion of $50 million of the Company's underlying $400 million nonguaranteed bank loans under the 1971 Agreement into a new series of preferred stock.

2. Replacing the remaining $350 million of nonguaranteed bank loans, now in the form of 90-day revolving notes, with a term loan extending into 1981.

3. Issuance of warrants for the purchase of 3.5 million shares of common stock.

4. Restatement of the 1971 Agreement and amendments to the Guarantee Agreement to reflect changes necessary for implementation of the refinancing plan.

The $50 million of nonguaranteed credit notes will be converted to a new series of preferred stock with a dividend rate of 9.5% payable on a cumulative basis, semiannually, commencing February 1, 1977. The preferred stock provides for a fixed annual sinking fund amounting to 15% of the original issue, commencing December 31, 1979, and a redemption premium of 8%.

The $350 million in nonguaranteed bank loans that will be converted to a term loan have an interest rate of 4% through December 31, 1976, prime rate plus 1% until termination of the guarantee, then prime plus 1-1/4%. Principal payments on the term loan will be made in eight quarterly installments of $20 million, commencing March 31, 1979, plus one lump-sum payment of $190 million at maturity of the loan on March 31, 1981.

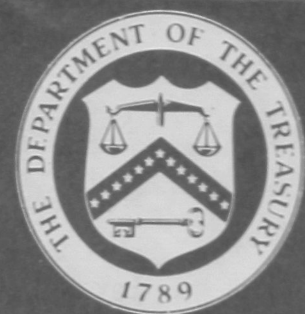
In approving the refinancing plan in 1975, the Guarantee Board extended its guarantee commitment to December 31, 1977, and the Board noted that this date is not changed by the actions taken today. Lockheed's guaranteed borrowings peaked at $245 million in September 1974 and presently stand at $160 million. The Company has repaid $35 million in guaranteed borrowings thus far in 1976 and current projections indicate that by year-end an additional $40 million may be repaid.

The Board noted that the implementation of the refinancing plan will reduce outstanding indebtedness, improve Lockheed's equity capital base, and provide a significatn further step toward long-term stability of the Company's financial condition.

Since last summer, as a condition of the continuance of the guarantee program, the Emergency Loan Guarantee Board has prohibited Lockheed from making further questionable payments. In addition, the Board has monitored the Company's corporate policy, announced subsequently, which restricts its relationships with foreign consultants. The Board noted that the Amendment to the Guarantee Agreement, as approved today, provides that the making of future improper payments, the maintenance of any funds outside normal channels of corporate accountability, or any other violation of Lockheed's corporate policy will be an event of default under the 1971 Guarantee Agreement. Officers' certificates and various reports dealing with these matters are also required to be furnished to the Board to facilitate the Board's monitoring efforts.

o0o

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE AT 4:00 P.M. September 9, 1976

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for $2,860 million, or thereabouts, of 364-day Treasury bills to be dated September 21, 1976, and to mature September 20, 1977(CUSIP No. 912793 H4 1). The bills will be issued for cash and in exchange for Treasury bills maturing September 21, 1976.

This issue will not provide new money for the Treasury as the maturing issue is outstanding in the amount of $2,860 million, of which $1,816 million is held by the public and $1,044 million is held by Government accounts and the Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities. Additional amounts of the bills may be issued to Federal Reserve Banks as agents of foreign and international monetary authorities. Tenders from Government accounts and the Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities will be accepted at the average price 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, Wednesday, September 15, 1976. 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

WS-1072

(OVER)

deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

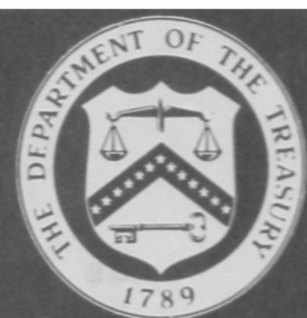
Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $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 September 21, 1976, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 21, 1976. 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.

oOo

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE
WORLD AFFAIRS COUNCIL OF BOSTON
SEPTEMBER 10, 1976

Thank you, Henry; Dr. Beranek, Mr. Spangler, distinguished guests, ladies and gentlemen:

It is a special privilege to be introduced by one of our great statesmen, Ambassador Lodge. In Congress, in the United Nations, in the high councils of Administrations of both political parties, and as our spokesman abroad in posts calling for delicate negotiation, firmness and resolve, he has served this country as have few other Americans in our time.

It is also a distinct pleasure to appear before the World Affairs Council of Boston. Your workshops, your seminars, your international student program and your other efforts have contributed significantly to a greater comprehension of foreign affairs and, in a wider sense, to a broader understanding of the complex issues in this increasingly interdependent world.

For, while there may once have been a time when foreign affairs seemed to be the exclusive realm of a handful of diplomats in striped trousers, we know better today. A nation's diplomatic interests are determined by an enormous range of considerations -- political, military even emotional and, most of all, economic. And they are of vital interest to every citizen in every walk of life in a free country.

While this has always been true, it is a far more obvious and far more important fact of life today, in an age that has both the greatest potential for human cooperation and betterment -- and the greatest potential for human destruction -- in the history of mankind.

The stakes have never been higher; the risks have never been greater. But, if we can preserve the peace and build on the existing foundation of international understanding and cooperation, this age of ours, as troubled and perplexing

as it sometimes seems, can give birth to a peaceful, progressive and enduring world order -- a time of both moral and material progress such as history has never known.

Ignorance, disease, poverty and oppression -- the Four Horsemen of the Apocalypse that have stalked the earth since the beginning of time -- are not invincible. There is nothing mysterious or supernatural about them; they are clear and visible foes that can be fought and vanquished. But they cannot be fought in the dark.

They are poisons in the human system, but, for each of these poisons there is an antidote. And today, for the first time in history, the antidotes are within our reach.

We have the learning and the means of distributing it, to vanquish ignorance.

We have the medical technology to wipe out many of the diseases that were once deemed hopeless.

We have the economic strength and expertise to combat poverty, if we chart the right economic course and stick to it.

And oppression will surely yield to freedom -- gradually but inevitably in a stable, peaceful and open world where people can compare and ultimately choose for themselves.

All this will not be accomplished over night. It is not the work of a day or a year or a decade; it is the work of generations. But our generation has made a promising beginning.

One of the most important contributions that our country has made in this generation, working in concert with the world community, has been on the economic front. And it is this aspect of the economy, domestic and international, that I would like to explore with you today -- economics as a key to a stable, liberal world order.

For, just as economic conflicts can lead to political and military conflicts, shared economic interests and goals can be a strong force for peace and cooperation. To ignore the inter-relationship of politics, diplomacy and economics, is to ignore the lessons of history.

Rome and Carthage clashed, and fought to the death, as rival economic powers. The territorial quarrels that led to most of the great land and naval wars of modern history were closely related to economic rivalries. Even our own

Civil War which was fought on grave constitutional issues and the human issue of slavery, also had its economic dimension -- the conflict between the industrialized, commercial North and the agragrian economy of the South -- the economic system that made slavery feasible.

The negative role that economics can play in foreign affairs is clear then. But what I want to stress here today is the potential positive role, as it has developed and can continue to develop in our lifetimes.

Many of you are probably familiar with the old Chinese curse: "May you live in interesting times." All of us, I believe, would agree that, from an economic as well as a political point of view, we have been living in particularly interesting times lately. In the past few years the world economy has sustained a number of severe jolts -- a fourfold increase in oil prices, large-scale money movements between nations, collapse of the old monetary order, inflation and recession. These have had an enormous impact on the economics of developed and developing nations alike and fluctuations in economic fortunes have led to changes, at times abrupt, in the political fortunes of these countries.

The role of the United States in meeting these challenges has been vital. A quarter century ago, it was commonplace to observe that when the U.S. sneezed, the world caught cold and when the U.S. caught cold, the world came down with pneumonia. While that is no longer as true today as it was then, we are still the major economic force in the world. With less than 6 percent of the world's population we account for over 25 percent of its annual production, and our exports and imports each are running at over $100 billion annually -- more than those of any other single nation.

The health of the U.S. economy, then remains vital to the economic health of other countries. And their political and social stability depends in large measure on their economic health. These past years have clearly demonstrated to us and many others that no nation or group of nations can solve their economic problems in isolation. We have witnessed how inflation and recession affect us all. We have observed that no country can achieve success by attempting to export its economic troubles. And we have come to see that the most significant contribution we can make to economic progress in the world is to restore durable prosperity in our own domestic economies.

For the United States this means, first, that we must follow stable fiscal and monetary policies aimed at reducing

inflation and laying the foundation for durable, non-inflationary domestic growth, and second, that we must translate these same policies internationally to assure the existence of a free and open world trade and investment order. That, it must be recognized, will be America's greatest contribution to world economic stability and -- because the economy lies at the heart of the body politic -- a significant contribution to world political stability as well.

At home, our economy is in the midst of a healthy and balanced recovery:

-- Inflation has been cut more than in half since the beginning of 1975.

-- Employment is at all-time highs;

-- Industrial output, retail sales, the GNP, personal income, the stock market have registered important gains.

And yet the decline in unemployment, though below its recession high point, is irregular and far slower than we are willing to tolerate. And inflation is by no means under firm control and remains the most dangerous enemy of that durable prosperity which we and all nations are seeking to achieve.

The ruinous inflation that crested in 1974 was the chief cause of the recession that followed. If we embark once again on a course of excessive fiscal and monetary policies, we will only rekindle another round of inflation and an even worse recession.

In our own economic interest, and in the interest of global economic stability, our first responsibility must be to stand by economic policies that will ensure healthy, balanced growth and prevent a resurgence of inflation.

Thus one of the biggest contributions we can make to global economic health begins right here at home. We uphold not only a narrow national interest, but the economic well being of our neighbors and trading partners around the world.

In shaping our international economic policies we must emphasize the same principles of open markets and competition that have served America so well during its two-hundred year history. Our current monetary and trade reform efforts will shape the world economic system far into the future. We can either promote increased competition, the reduction of tariffs and non-tariff barriers, equitable trading rules and open

access to markets and raw materials; or, the world economy will develop unwanted cartels to control prices and supplies, protectionism will once again disrupt the flow of trade and capital, and instead of greater international cooperation and shared progress, the world marketplace will be plagued by negative conflicts and economic stagnation.

In the area of international monetary affairs, the past several years have shown progress and accomplishment. After years of difficult and sometimes contentious debate, The United States and other IMF member nations have reached fundamental agreement on a comprehensive reform of the international monetary system, a reform that will bring the system into line with today's needs and realities and provide a flexible framework for adaptation to a dynamic world economy.

The new monetary system builds importantly on two critical features of the Bretton Woods framework.

-- First, the central, pivotal role of the IMF as the institutional heart and monitor of the system will be continued and strengthened.

-- Second, the essential aims of Bretton Woods, which give cohesion and direction to the philosophy of a liberal world monetary order, will be reaffirmed.

But while the new system provides the same aims as the Bretton Woods system and continues to rely primarily on the IMF as the institution for achieving its purposes, it differs in other critical respects.

The Bretton Woods system was created against the backdrop of a different world -- the world of the 1930's and 40's in which levels of international trade were very low; in which capital flows had virtually dried up and the value of international investment to international prosperity was not recognized; in which reliance on direct controls

was widespread; in which interest rate and monetary policy instruments had fallen into relative disuse; in which the attention of policy officials was directed single-mindedly toward jobs and employment goals.

It is understandable that features of a monetary system designed to meet the problems of that world could become obsolete and anacronistic in the conditions of today, where the structure of the world economy has changed and the problems have changed -- where world trade has grown 2,900% since 1950 and where capital flows have reached proportions that would astound the men of an earlier era, Harry Dexter White and Lord Keynes, a world in which these same men would be saddened by the struggle of nations to get below double-digit inflation and at the same time deal with the modern day twin of inflation, a high level of unemployment.

Bretton Woods was based on the idea that stability could be imposed from outside. Keynes and White, the architects of the system, assumed that if countries were required to adhere to fixed exchange rates, to be altered only after fundamental economic changes had occurred, and were supplied with moderate amounts of credit from the International Monetary Fund, that arrangement would provide adequate leverage -- at least on deficit members -- to encourage stable economic policies.

The system had an elegant symmetry but even in its heyday it did not work as it was intended. Countries with a balance of payments surplus were reluctant to permit their currencies to appreciate. On the other hand, devaluation by countries experiencing balance of payments deficits were frequent and what was intended to be a system of symmetrical adjustment became lopsided. The U.S. was at the center of the system -- pinned down. Other countries could adjust exchange rates relative to the U.S., but we did not enjoy the same privilege.

It was during this period -- the 1960's -- that we learned that the most important single price in the U.S. is the price of the dollar. The relationship of the dollar to other currencies plays a significant role in determining what is produced in the U.S. and what is produced elsewhere. Exports, imports, location of product facilities, and capital flows are all in varying degrees a function of the exchange rate.

Preceeded by a series of exchange crises, hurried conferences, makeshift remedies and a pervasive "Let's keep a stiff

upper lip attitude" the system collapsed in 1971. The effort to put it back together failed and the end occurred in 1973 when the dollar floated.

The new system takes a different approach. It does not rely on the system to force stability on member countries. Instead, it looks to the policies of member countries to bring stability to the system. In the exchange markets, the new system does not seek to forestall change by imposing rigid rates but recognizes that countries' competitive positions do and will change, and that it is far less destabilizing to permit rates to move in response to market forces than to hold out until the abandonment of costly large financing efforts brings abrupt jumps. It recognizes that the only valid path to international monetary stability is the pursuit of policies in the member countries that converge toward stability rather than diverge into instability. It acknowledges that we can never assure lasting stability in exchange rates between currencies if the underlying trends in various economies are sharply different in pace or direction.

This is much truer today than 30 years ago, because of the progress we have made in liberalizing the world economy and the growth of economic interdependence. The move to a liberal and integrated world economy has brought greater prosperity and major benefits to all nations. But allowing wider scope for international commerce also means greater potential for disruption from that commerce. With freedom for expanded trade and capital flows, market responses to changing conditions can be swift and massive. In today's integrated world economy, action to manage or fix exchange rates in contradiction to basic market forces in doomed to failure. In recent years, nations have learned this lesson time and again: and those who challenge it do so at their peril.

To those of you who are nostalgic for the good old days and may translate this nostalgia into a desire to return to the par value system, thinking that fixed rates would bring stability, I would suggest to you that such beliefs are an illusion. Think again of the chaos and disorder of the closing years of the Bretton Woods system. Think back to those days of market closures which disrupted trade and commerce. Remember, too, the hurried attempts to patch together some solution so that markets might open again. Think back to the duration and difficulty of the Smithsonian negotiations and the tensions associated with those negotiations. Then think back over the last

five years of unparalleled flows of money, massive increases in oil prices, inflation, recession, balance of payments problems. Just imagine the old par value system trying to accommodate those strains.

The new monetary system is a more flexible, pragmatic, market-oriented system, better suited to today's highly integrated world economy. The new system looks to prevention whereas the old system applied only cures, often too late and with ineffective doses. It concentrates on the real determinants of monetary stability in underlying economic and financial conditions. Because the new system established nations' obligations in terms of basic policy, rather than mechanics or procedure that obscure rather than sharpen the central issues, it is realistic in structure and right in approach. Its success or failure will depend ultimately -- as will the success or failure of any system -- on the prudence and soundness of government policy in the respective nations.

These agreements are now embodied in the formal legal language of amendments to the IMF Articles of Agreement, now before the Congress. The House of Representatives has given overwhelming approval to the legislation to implement these important monetary agreements. The Senate Foreign Relations Committee has also approved the legislation and the Senate Banking Committee is expected to complete action shortly. The U.S. has played a prominent role in bringing about the new arrangements; and I am most hopeful that when I go to Manila next month for the meeting of the Governors of the International Monetary Fund I will be able to announce final approval by the United States.

Just as the United States vigorously supports the latest moves in monetary reform, we also support the continued growth of a free and open world trading and investment order. One of the most encouraging and significant postwar economic developments has been the dramatic expension of trade among market economies -- from a level of $55 billion in 1950 to over $1.6 trillion in 1975. We believe that in strengthening these bonds of trade, we strengthen the bonds of peace, understanding and interdependence.

The case for free trade is based on the general concept of comparative advantage. Trade barriers typically reduce or eliminate the exchange of goods that would benefit all countries. Similarly, trade restrictions, which insulate domestic producers from foreign competition, reduce the pressures for controlling price increases and for stimulating creative productive development.

While the balance in our trade necessarily fluctuates -- this year we expect a deficit in our trade account -- we should understand that, if we are to achieve international economic and monetary stability, those countries in relatively strong positions must be prepared to allow some decline in their external positions. Only in this way, can others undertake the needed adjustments. In that light, a trade deficit for us can contribute to the stability of the world trade and payments system. We can well view this with equanimity. It is not contrary to U.S. interests; rather, it may well be essential if our open and cooperative trading system is to survive.

And the fact is that our trading system has undergone -- and survived -- a massive ordeal by fire. In the wake of the most serious economic problems in 40 years, inflation, recession, the energy crisis and the other disruptions they caused, neither we nor our trade partners resorted to potentially disastrous dog-eat-dog, beggar-thy-neighbor policies.

This is an important accomplishment. We must build on it and expand it as we move from a period of economic recovery to a period of economic expansion.

The major thrust of U.S. trade policy as embodies in the multilateral trade negotiation should be:

-- To negotiate for more open access to markets and supplies with emphasis on equity and reciprocity;

-- To increase flexibility in providing escape clause relief and adjustment assistance for American industries, workers and individual firms suffering injury from import competitions;

-- To diversify the types of actions the United States can take in responding to unfair international trade practices;

-- And to expand normal commercial relationships with the non-market economies.

Recently, there has been some international concern that the U.S. is drifting towards a policy of protectionism. Let me assure you that this is not the case. As cause for their concern, critics have cited the recent determinations of the International Trade Commission in favor of import relief for a few specific U.S. industries.

The justification for these limited measures is obvious. Industries in all countries have the right to be free from injurious international dumping of marginal or excess production. They also have the right not to be required to compete against government-subsidized imports. Our antidumping and countervailing duty laws are designed to implement those rights.

On a more practical level, I believe that equitable administration of laws pertaining to unfair trade practices actually assist the United States and other countries in reducing generalized barriers to trade. Unless we in the Administration can convince Congress and domestic interests that the U.S. intends to provide remedies against unfair trade practices, it will be impossible to develop the necessary support for generalized trade liberalization. In other words, we see no inconsistency between free trade and fair trade and the assurance of the latter is what enables us to progress in achieving the former. Believe me, it is hard to convince Congress that we should cut tariffs across the board if we just stand by while those same imports benefit from government subsidies. Moreover, we believe that artificial export subsidies are not in the best interests of the nation providing them because first, they distort market forces and interfere with the allocation of capital where it will be most productive, and, second, they are an expensive use of scarce government resources. Finally, they have the effect of unilaterally

negating another country's tariff rate and therefore, tempt that country to raise its tariff rate or to seek other protection through quotas or other non-tariff trade barriers.

Just as free trade requires open markets, it also requires an open attitude toward foreign investment. Foreign direct investment and short-term credit to finance trade have played an important part in the economic development of the Atlantic community during the postwar period and have a vital part to play today in the Atlantic community as well as the world at large.

The U.S. Government should, and has, set an example by reaffirming its intention to avoid restrictions on foreign investment in America, consistent with national security. In general, foreign investors receive the same treatment as domestic investors. During the period of concern about the possibility that OPEC funds would flow into America to buy up basic industries, various bills were submitted in the Congress to restrict foreign investment. The Administration strongly opposed such actions, and no additional barriers were created.

We believe this is the responsible position not only for ourselves, but for all those who believe in a genuinely free, open world economic order.

In summary then, the same economic principles that have worked to create prosperity, stability and freedom at home can also help to shape a freer, more prosperous and liberal economic order. We desire a shared prosperity. That prosperity can only come through increased flows of investment. Through increased investment we achieve greater productivity and through greater productivity we achieve a higher standard of living for all.

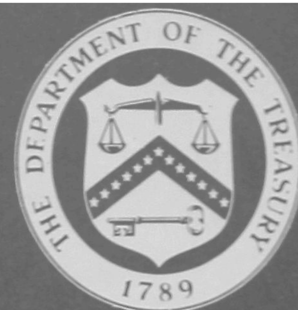
As the nation that accounts for over one fourth of the world economy, we have a special obligation to help others to help themselves -- in the marketplace and through the strong support of international financial and development institutions, in concert, not in competition with, the private sector.

If we stand by these commitments, if we preserve and expand a strong economy at home and continue to lead the fight for a freer, more prosperous world economy, then what was once called the American dream -- the seemingly impossible dream of a free, decent existence for all -- can become not only the dream, but the reality, of the entire human family.

Thank you.

oOo

he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE UPON DELIVERY

REMARKS OF THE HONORABLE RICHARD R. ALBRECHT
GENERAL COUNSEL OF THE TREASURY DEPARTMENT
BEFORE THE NEW YORK LAW JOURNAL SEMINAR
ON
BRIBES, KICKBACKS, AND ILLEGAL PAYMENTS
LOS ANGELES, CALIFORNIA
SEPTEMBER 10, 1976

I appreciate the opportunity to talk with you this morning about what has generally been referred to as illicit payments.

I am sure you are all concerned about the requirements presently imposed by our tax and securities laws, and the requirements which may be imposed if the Administration's or other proposed legislation passes. My colleagues will address technical aspects of these requirements. I would like to introduce their presentations by putting the subject of bribery and other improper payments in a broader perspective.

We are well aware that bribery and illicit payments are a pervasive problem in many countries. Civil servants in some countries depend on bribes as a salary supplement. In other countries a bribe may be the accepted way of getting access to decision makers who award contracts. Extortion occurs with dismaying frequency, and is often the price of doing business in some countries. Even though antibribery laws exist in most countries, they are often not enforced to the extent we would hope and expect.

Let me introduce the Administration's position by making it clear that it is not in the interest of U.S. firms to obtain overseas business through illicit payments. A company making such payments may possibly get a short-term gain by concluding a contract, but it opens itself to lawsuits from its competitors and its shareholders. The company making a bribe risks having its contract opened up if new officials or

governments discover the bribe--an important risk if payment is over a long period. Contracts may also be abrogated if a buyer concludes it has gotten a bad bargain or bought an inferior product because one of its officials accepted a bribe. More significantly, many developing countries are reacting to such scandals with expropriation and other forms of economic retaliation.

A company may also find itself the subject of an investigation by one or more U.S. agencies. In addition to the well-publicized investigations by the SEC, IRS and the Department of Justice, the FTC's Bureau of Competition is presently investigating Lockheed, Northrup and others to determine if their foreign sales activities have resulted in unfair methods of competition in violation of Section 5 of the Federal Trade Commission Act and Section 2(c) of the Clayton Act.

From broader policy perspectives we see bribery as causing serious foreign policy difficulties and contributing to a deterioration of the international investment climate. Revelations that bribery has occurred can lead to political disruption in host countries and create strains in our relations with them. Reports of illicit payments have also sparked efforts to "control" multinationals in ways which may limit the benefits associated with foreign investment--both from the point of view of the firm and the host country. We also see bribery as distorting the market's allocation of resources, and rewarding inefficient producers which have to bribe to gain a contract. Instead of having fair and open competition determine prices, prices are in great part determined by questionable private and closed deals. This is not the way we want to see international business develop.

Accordingly, the President, on March 31st of this year, established a cabinet-level task force to conduct a sweeping policy review of the problem. The current Administration approach includes: (1) The pursuit of effective international agreements, (2) the vigorous enforcement of existing U.S. law, and (3) a proposal for a new law to deal with these payments.

International Initiatives

We are aware that unilateral action on our part may make it difficult for American businessmen to compete with foreign businessmen whose countries do not take as strict a view of bribery as we. A foreign competitor may be able to outcompete a U.S. businessman because it can make illicit payments to conclude business deals.

We have made a continuing effort to deal with this problem, and are working to develop an international consensus against illicit payments. Almost a year ago Secretary Simon asked for the support of other OECD member countries on this issue. As a first step we have negotiated strong language condemning bribery as part of the OECD Voluntary Code of Conduct for Multinational Enterprises, adopted unanimously by the OECD ministers in June. The Code states that multinationals "should not render and they should not be solicited or expected to render any bribes or other improper benefit, direct or indirect, to any public servant or holder of public office." It further states that "unless legally permissible multinationals should not make contributions to candidates for public office or to political parties or other political organizations."

Most significantly, the U.S. has proposed negotiation in the United Nations of a treaty on corrupt practices. The proposal, which was forwarded to the UN Economic and Social Council in August, envisions an agreement which would be based on the following principles:

(1) It would apply to international trade and investment transactions with governments;

(2) It would apply equally to those who offer to make improper payments and to those who request or accept them;

(3) Importing governments would agree to establish clear guidelines concerning the use of agents, and would establish appropriate criminal penalties for defined corrupt practices by enterprises and officials in their territory;

(4) All governments would cooperate and exchange information to help eradicate corrupt practices; and

(5) Uniform provisions would be agreed upon for disclosure by enterprises, agents and officials of political contributions, gifts and payments made in connection with covered transactions.

Last month in Geneva, the UN Economic and Social Council took the first significant step toward international action. The Council adopted a U.S. proposed resolution which authorizes a group of experts (1) to draft a treaty on corrupt practices, and (2) to report that text back in the summer of 1977. The U.S. plans to participate in this drafting exercise and desires to have an agreed text open for signature before the end of 1977.

It is the view of the President and the task force that the ultimate legal basis for adequately addressing the illicit payments problem must be an international agreement along the lines of the U.S. proposal. This is an area in which we favor action pursuant to national law and international agreement. A coordinated effort by exporting and importing countries is the only way to inhibit improper activities of this kind internationally.

Enforcement of Existing Laws

On the domestic side, the investigative enforcement activities of government audit agencies, the IRS, the Federal Trade Commission, the Department of Justice and the SEC are ongoing, and the product of their activities is likely to increase the deterrent effect of existing law on the subject.

The Securities and Exchange Commission has played a leadership role in this area by taking prompt action to discover the existence of illicit payments and to require public disclosure of material facts relating to them. The Internal Revenue Service has also played a lead role in this area through its enforcement efforts to uncover any improper deduction of these payments for tax purposes.

One widely held belief about the IRS is that it has only recently begun its efforts to locate corporate tax fraud of this character. This is not the case. While the IRS has adopted new procedures in this area (as it does in any area in which they are found to be necessary or desirable), it is clear that the present program is part of a long-standing effort to uncover corporate tax fraud.

In the 1950's and 1960's the tremendous growth in corporate size caused the IRS to abandon its traditional one-case-one-agent approach to examinations. To cope with the

problems associated with this growth the IRS determined that it was necessary to centralize in one district, jurisdiction of all related returns and responsibility for their examination.

In 1966 the Coordinated Examination Program was initiated. The criteria for inclusion in this program has evolved along asset lines and has, since 1973, included all corporations (except financial institutions and utilities) with gross assets in excess of $250 million. Financial institutions and utilities with gross assets in excess of $1 billion are also included. The program today encompasses approximately 1,200 corporate taxpayers controlling about 59,000 separate entities. Audit coverage within this group is 100%. Since this program's beginning, guidelines have stated that one section of the audit would be devoted to specific checks for possible areas of non-compliance including, of course, fraud. These instructions were updated in 1973 to state that audit plans would contain specific compliance checks in the area of political contributions. In August 1974, the IRS established a political campaign contributions compliance project in the national office. Under this project the national office received and disseminated to appropriate field offices validated information concerning possible tax violations related to campaign contributions.

In December, 1974, the Service issued new and expanded guidelines regarding the examination of political organizations and committees, candidates, and contributors. These two actions, taken in the latter part of 1974, have relevance to our subject because many of the corporate slush fund schemes have been devised to create money for political contributions and bribery, both in the United States and abroad. Thus, although the Service's efforts to uncover corporate tax fraud have been intensified recently, they do have a considerable history.

In August, 1975, the Service issued new guidelines, to be applied in all corporate examinations, designed to assist examiners in detecting "slush funds" and other corporate schemes used to circumvent the tax laws. These guidelines called for the interview of top corporate officers and key employees instead of dealing solely with corporate tax managers. Also, they emphasized the use of the IRS' Office of International Operations to assist in the examination of the books and records of American companies abroad.

Additional instructions were issued to field offices in the spring of this year. These instructions require that the revenue agents in the coordinated examination audits ask eleven specific questions of selected corporate officials and key employees and request attestation to the responses of these individuals by the managing partner of the corporation's accounting firms. The individuals selected for questioning are those present or former employees or directors who have, or had sufficient authority, control or knowledge of corporate activities to be aware of the possible misuse of corporate funds. At a minimum, the questions cover all tax years under audit, whether under examination, in review or in conference, and include all subsequent years for which returns have been filed.

The IRS' eleven questions have sparked more controversy than any single investigative move in some time. Several major CPA firms have reportedly ordered their audit partners to refuse to sign an affidavit in response to the questions, because of a concern for the relationship between an auditor and client.

The Taxation Section of the ABA has expressed concern that the use of the eleven questions threatens the voluntary self-compliance tax system and has called for their modification. Their concerns represent a serious and genuine interest in the integrity of our tax system--a concern we all have.

A special subcommittee of the Tax Section of the New York State Bar Association has published a 100-page booklet critical of the eleven questions and their use by the Service.

Like any new investigative tool, this one has produced many critics. Balancing the desire for effective investigations against the competing interests of those affected by the investigation is not an easy task. Allegations of bribery are the sort of things, however, that are not easy to prove. By its very nature, the participants have usually made every effort to hide the true character of their actions.

Detecting the existence of corporate slush funds is an equally difficult task. We must note that a number of such funds have escaped the detection of teams of independent auditors who in the ordinary course of routine corporate audits have not uncovered them, and have put their professional

reputations on the line in expressing opinions on corporate financial statements.

I can assure you that Commissioner Alexander and other senior Treasury officials are doing all they can to see that the eleven questions do not become a device for improper inquisitions and are, rather, used as they were intended--as an important and rational part of a number of very important tax investigations.

It is clear that the Internal Revenue Code and existing securities laws have had an important bearing on the problem. However, the problem of illicit payments is broader than the collection of revenues and the interests of the investing public.

While continuing to pursue the present policy of vigorously enforcing existing laws, and obtaining an international agreement, the President and the task force decided that it was nonetheless necessary to supplement current U.S. law to address the full range of public policy and foreign relations interests related to the problem.

New Legislation

Before outlining the Administration's legislative proposal, I believe it would be useful to outline the considerations behind such a choice.

There are two principal legislative approaches--A disclosure approach or a criminal sanction approach. The criminal approach would, of course, represent the most forceful assertion of our abhorrence of such conduct. However, such an approach would represent little more than a policy assertion. The prosecution of offenses would depend upon our access to information, witnesses and other evidence which may be beyond the reach of U.S. judicial process. The application of U.S. criminal sanctions to foreign-incorporated or foreign-managed subsidiaries of U.S. corporations may offend other nations, as well as reduce their willingness to cooperate in any prosecutions. In addition, a unilateral criminalization scheme would be counterproductive to our international efforts to attack the problem through a treaty on corrupt practices. Other nations would be more willing to cooperate in an international effort if the U.S. is not labeling as a crime conduct which has occurred within that nation's territory. The U.S.

objective here is to discourage all forms of bribery in international business transactions. For these and other reasons, the task force concluded that the criminal approach would not be an effective method to achieve this objective.

Based upon an anlysis of the adequacy of the current laws, and an evaluation of alternative means to strengthen deterrence, the Administration has recommended legislation to Congress providing for full and systematic reporting and disclosure of payments made with the intent of influencing the conduct of foreign government officials.

The Foreign Payments Disclosure Act, which the President submitted to Congress on August 4, 1976, encompasses the following principles:

-- Reports would be required of all payments made in connection with sales to or contracts with foreign governments or official actions by foreign public officials where they are for the commercial benefit of the payor or his foreign affiliate.

-- Regulations issued by the Secretary of Commerce would require that the reports include the names of recipients of payments, and would establish a de minimus threshold amount below which payments need not be reported.

-- Reports would be required to be made to the Department of Commerce and would be made available to the Departments of State and Justice, the IRS, the SEC and, upon request, to appropriate Congressional committees.

-- The Departments of State and Justice would, in their discretion, convey the contents of such reports to the affected foreign governments.

-- The reports would become available for public inspection after a one-year interval, except in cases where a specific written determination is made by the Secretary of State or the Attorney General that considerations of foreign policy or judicial process dictate against disclosure.

Since the submission of the legislation last month, the task force has been (a) engaged in refining alternative methods for enforcement of the proposal, (b) assessing the kind of assistance which will be needed from foreign governments, (c) drafting regulations to apply the legislation, and (d) studying provisions to be included in a treaty on corrupt practices.

In addition to recommending new disclosure legislation, the President supports the legislation which would improve private sector internal reporting and accountability. This approach was first proposed by the SEC and is now incorporated as a portion of Senator Proxmire's bill, S. 3664. It would:

- prohibit falsification of corporate accounting records;
- prohibit the making of false and misleading statements by corporate officials or agents to persons conducting audits of the company's financial operations; and
- require corporate management to establish its own system of internal accounting controls to provide assurances that corporate transactions are executed in accordance with management's authorization, and that such transactions are properly reflected on the corporation's books.

Tax Legislation on Bribery

As a final matter, I think it would be useful to review the actions taken by the Conference Committee on August 25 and 26 with respect to the antibribery provisions contained in the Tax Reform Act of 1976.

At present the Internal Revenue Code does not explicitly deal with bribes which are paid by controlled foreign corporations. Existing law, however, denies a U.S. taxpayer a deduction for any illegal payment. The Senate bill would have denied the benefits of DISC, deferral, and the foreign tax credit with respect to a taxpayer's "bribe-produced income."

The Conference Committee agreed that the amount of a bribe paid by a foreign corporation shall be treated as a distribution to its U.S. shareholders and that the distributions shall not reduce the earnings and profits of the foreign corporation.

This approach would impose a U.S. tax sanction against bribes made by controlled foreign corporations and would parallel the tax treatment of bribes paid in the U.S. on domestic taxpayers. This is far preferable to the originally drafted Senate bill. The Administration has consistently maintained that the tax system is not an appropriate device for dealing with this problem.

Conclusion

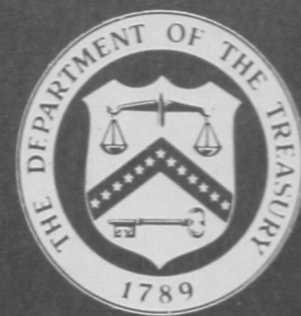
I am told that businessmen from other countries take the view that bribery is a way of life in the countries in which they operate, and that no amount of indignation or legislation can change this. Some American businessmen may share this point of view, but increasing numbers are concluding that some action is necessary to deal with the situation.

We in government have made a serious effort to provide a comprehensive approach to the problem both domestically and internationally. I also feel that an impressive number of U.S. firms have contributed significantly to this effort to curb bribery through in-house condemnation of the practice and by voluntary compliance with the requirements of the SEC.

My point is, whether you sit on the private side or on the public side, it is important to realize that it is in our own interests to discourage all forms of bribery in order to restore the confidence we have lost in our institutions, and permit competition on the merits again.

* * *

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



REMARKS BY THE HONORABLE GEORGE H. DIXON
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
BOARD OF GOVERNORS, MORTGAGE BANKERS ASSOCIATION
STATLER HILTON HOTEL, WASHINGTON, D.C.
THURSDAY, SEPTEMBER 9, 1976

I am pleased to have this opportunity to speak with you today concerning financial reform. It gives me a chance to squelch the popular rumor that financial reform is dead and to talk briefly about the evolution which I believe will inevitably take place in financing the housing needs of this country. The latter point is particularly important because of the role that the mortgage banking industry must play in the evolutionary process.

As you know, the Government has been pursuing financial reform since the report of the Hunt Commission in 1971. That report led to legislation orginially called the Financial Institutions Act of 1973 which was largely ignored by the 93rd Congress. It was reintroduced with minor changes to the 94th Congress as the Financial Institutions Act of 1975 and received substantial consideration in both the House and the Senate. Unitl late spring we were optimistic of achieving passage this year. Now it is altogether clear it's not going to happen. It is important to note, however, that the support, and for that matter the opposition, to financial reform has never been a partisan matter. Therefore, whatever the outcome of the November election we fully expect the subject to be considered early in the next session of Congress.

A key to financial reform is housing and the role that financial institutions, particularly savings and loan associations and mutual savings banks, will play in the residential mortgage markets of the future.

WS-1075

It seems clear that the savings and loan associations are in trouble, but I don't mean at all that their solvency is threatened. Rather it is in their ability to grow and to keep pace with requirements for housing credit. The success of these institutions has largely been based on conditions which no longer prevail in our economy. First, relative stability of interest rates afforded a consistently growing base of deposits which could safely be loaned long term even though technically the deposits were short term. Second, the opportunities for the consumer to safely invest his savings dollars were limited largely to financial intermediaries. As a result, financial institutions could afford to pay rates which were, at times, below market without fear of substantial withdrawals. Moreover, the artificial protection of Regulation Q interest rate ceilings insulated thrift institutions from competition from banks which, absent Regulation Q, could afford to pay more for savings deposits during periods of high interest rates.

Since 1966 we have seen ever-increasing volatility in the short term interest rate structure. During this period rates have tended higher, but I do not believe that it is necessary to assume that this will always be the case. It is likely, however, that above average volatility will continue. In the same period an increasing number of opportunities for investment of savings dollars outside the financial institutions have been developed or come into popular use. Money market mutual funds, commercial paper, and small denomination Government securities are prime examples. There is reason to expect that offerings of these alternatives will continue.

Because of these conditions the pool of savings deposits available to all financial institutions has become less stable. The problem seems particularly acute for thrift institutions.

In times when rates are high a lot of funds move out, or at least don't go into financial institutions, and instead go into alternative investments. Whenever this situation occurs new alternatives are developed and savers become sensitized to interest rate differences, so that in each succeeding period of high rates the velocity of withdrawal or of bypass in favor of other opportunities is greater than before.

When interest rates retreat funds flow rapidly back to the institutions. This occurs because Regulation Q interest rate ceilings tend also to act as interest rate floors. In periods of low rates financial institutions become more attractive as depositories not only because of their relatively high return but also because of the safety and convenience they offer.

For the savings and loan associations the result is a glut of deposits which can be difficult to invest. Even assuming good demand for mortgage credit the yield on loans is likely to retreat, and S&L's which invest heavily in these periods will be ill prepared to pay higher rates at a later date or to meet withdrawals during the next period of disintermediation. Moreover, the increase in deposits tends to divert attention from the task of solving the fundamental cyclical problems which continue to exist and which will return when the cycle is next reversed.

The solution to this problem is to try to alter the deposit mix to make deposits more stable and to alter the asset/income characteristics of thrift institutions so that they can better compete for deposits.

Savings and loan associations and mutual savings banks should be able to accept demand deposits, which are relatively stable both in volume and cost, so as to help balance the increasing volatility of savings deposits. Thrift institutions should also be permitted, and in fact, encouraged to invest substantial portions of their assets in variable rate mortgages, consumer loans, and other interest-sensitive assets without the uneconomic and anti-consumer restrictions of state usury laws. Once these changes have been accomplished and portfolios have adjusted, S&L's should be fully able to compete on a price basis for savings deposits; and Regulation Q and other artificial barriers will no longer be required.

Variable rate mortgages should also be attractive to other lenders such as banks and credit unions which rely on savings deposits or other interest-sensitive sources of funds and should lead to acceleration of mortgage lending by those institutions.

From the consumer standpoint variable rate mortgages open up a whole series of financing options to better serve individual needs. Since the flexibility implicit in such instruments can be incorporated by changing the maturity, amortization rate, principal balance, monthly payment, or any combination of those factors, custom tailored mortgages are a real possibility.

We believe the variable rate mortgage will play a significant role in the mortgage markets of the future, it certainly does not represent the total solution. Fixed rate mortgages must continue to be available. I believe that availability is assured because of the competitive nature of our credit markets which are responsive to consumer demand. Further, the more stable deposit base that financial reform will bring to thrift institutions will permit easier accommodation of fixed rate mortgages as part of their portfolio mix.

Thrift institutions should continue to operate as basically specialized lenders with a substantial commitment to mortgage credit, but their portfolio mix will likely become more oriented to mortgages on relatively high value properties owned by upwardly mobile individuals for whom variable rates are likely to be most attractive. It is important, therefore, that pension funds, life insurance companies, and others which find fixed rates consistent with their investment objectives, be encouraged to increase their participation in the mortgage market.

One way to do that is through the mortgage backed security concept which your industry has helped develop and market. These securities have proved attractive to investors which have neither the skill nor desire to originate, package, or service fixed rate mortgages. They also provide the basis for the kind of viable secondary market which has been so sorely lacking in the mortgage field.

We are convinced that the mortgage backed securities concept can be expanded and improved. To the extent that it is necessary for the Government to play a role in the process either by direct guarantee or by the establishment of consistent rules of the game, it should do so on an actuarially sound basis and with the objective of facilitating rather than restricting participation.

Looking beyond the mortgage backed security, the Government has other roles to play. First, we must eliminate those regulations and restrictions which provide artificial barriers to free competition and which for one reason or another have tended to make the mortgage instrument less attractive than alternative investments. As I mentioned before, Regulation Q, variable rate mortgages, and state usury laws rank high on this list.

Second, we must make some hard decisions on our housing and mortgage priorities and then devise effective programs to carry out the objectives which result. For example, do we want programs with the primary objective of creating jobs in the construction industry or do we want to create opportunities for quality housing? Is our goal to foster home ownership or is it equally acceptable to assure good rental opportunities? Do we encourage ever-increasing urban sprawl by supporting the quest for relatively low cost land or it is more in our interest to concentrate our efforts in our cities?

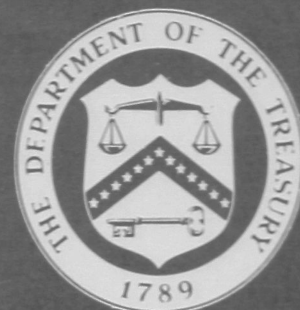
I do not mean to imply that the answers to these questions are easy or that they are mutually exclusive. I do believe, however, that a clear idea of what we want and where we are going can result in better and more effective delivery of housing assistance than currently exists.

So, to return to the beginning, I believe that financial reform is inevitable as a result of economic forces already at work. The only question which remains is the timing and nature of those reforms. I hope that we will not have to survive another crisis of disintermediation and another "mortgage crunch" before we seriously pursue these objectives. The Administration retains its strong commitment to move ahead during the next session of Congress, and if that sounds like an expression of optimism, it is. We solicit and look forward to your help and advice.

Thank you.

oOo

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE | September 13, 1976

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,100 million of 13-week Treasury bills and for $3,100 million of 26-week Treasury bills, both series to be issued on September 16, 1976, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing December 16, 1976			:	26-week bills maturing March 17, 1977		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	98.714	5.087%	5.23%	:	97.328	5.285%	5.51%
Low	98.709	5.107%					
Average	98.711	5.099%					

Tenders at the low price for t
Tenders at the low price for t

TOTAL TENDERS RECEIVED AND ACCEPTED

District	Received	Acce
Boston	$ 44,810,000	$ 2
New York	3,956,675,000	1,68
Philadelphia	19,330,000	1
Cleveland	37,020,000	3
Richmond	27,645,000	2
Atlanta	34,045,000	3
Chicago	228,315,000	10
St. Louis	52,315,000	3
Minneapolis	33,050,000	1
Kansas City	51,970,000	4
Dallas	32,255,000	1
San Francisco	297,515,000	5
TOTALS	$4,814,945,000	$2,10

DATE: September 13, 1976

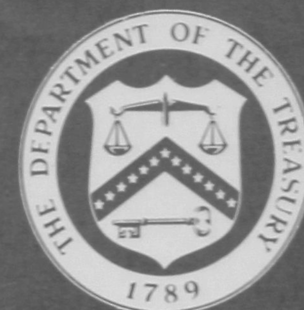
TREASURY BILL RATES

	13-WEEK	26-WEEK
LAST WEEK:	5.087%	5.333%
TODAY:	5.099%	5.309%
HIGHEST SINCE 8-23-76:	5.138%	
LOWEST SINCE 4-26-76:		5.230%

a/ Includes $ 398,790,000 noncompetitive tenders from the public.
b/ Includes $171,880,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

WS-1077

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE September 13, 1976

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,100 million of 13-week Treasury bills and for $3,100 million of 26-week Treasury bills, both series to be issued on September 16, 1976, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing December 16, 1976			26-week bills maturing March 17, 1977		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.714	5.087%	5.23%	97.328	5.285%	5.51%
Low	98.709	5.107%	5.25%	97.311	5.319%	5.54%
Average	98.711	5.099%	5.24%	97.316	5.309%	5.53%

Tenders at the low price for the 13-week bills were allotted 78%.
Tenders at the low price for the 26-week bills were allotted 83%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 44,810,000	$ 27,660,000	$ 51,370,000	$ 29,370,000
New York	3,956,675,000	1,687,665,000	5,410,135,000	2,707,825,000
Philadelphia	19,330,000	19,330,000	7,680,000	7,680,000
Cleveland	37,020,000	35,620,000	65,070,000	15,070,000
Richmond	27,645,000	22,205,000	49,265,000	26,755,000
Atlanta	34,045,000	33,685,000	36,160,000	35,110,000
Chicago	228,315,000	103,715,000	252,975,000	65,975,000
St. Louis	52,315,000	31,315,000	43,400,000	23 400,000
Minneapolis	33,050,000	17,170,000	45,985,000	40,985,000
Kansas City	51,970,000	48,445,000	23,955,000	20,445,000
Dallas	32,255,000	19,865,000	28,705,000	15,705,000
San Francisco	297,515,000	54,415,000	273,185,000	112,845,000
TOTALS	$4,814,945,000	$2,101,090,000 a/	$6,287,885,000	$3,101,165,000 b/

a/ Includes $ 398,790,000 noncompetitive tenders from the public.
b/ Includes $171,880,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

WS-1077

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR IMMEDIATE RELEASE September 7, 1976

CHARLES I. KINGSON APPOINTED DEPUTY INTERNATIONAL TAX COUNSEL

Secretary of the Treasury William E. Simon today announced the appointment of Charles I. Kingson as Deputy International Tax Counsel and Deputy Director of the Office of International Tax Affairs.

Mr. Kingson, 38, has been a partner in the New York law firm of Willkie Farr & Gallagher since 1969.

As Deputy International Tax Counsel, Mr. Kingson will work with the International Tax Counsel who is the principal legal advisor to Assistant Secretary for Tax Policy Charles M. Walker in the formulation of policy, legislation, and regulations on international tax matters, including the taxation of foreign source income of U.S. taxpayers, the taxation of foreigners receiving income from U.S. sources, and the prevention of international tax evasion.

As Deputy Director of the Office of International Tax Affairs, Mr. Kingson's work will include the income and estate tax treaty program and the Treasury Department's participation in the activities of the Committee on Fiscal Affairs of the Organization for Economic Cooperation and Development (OECD).

A native of New York City, Mr. Kingson received his A.B. degree from Harvard College in 1959 and his LL.B. degree from Harvard Law School in 1963. Mr. Kingson is married to the former Nancy Ellen Sharf. They have a daughter, Jennifer.

-o0o-

WS-1078

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

SUMMARY STATEMENT BY J. ROBERT VASTINE
DEPUTY ASSISTANT SECRETARY OF THE TREASURY
FOR TRADE AND RAW MATERIALS POLICY
BEFORE THE
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE
UNITED STATES HOUSE OF REPRESENTATIVES
TUESDAY, SEPTEMBER 14, 8:30 A. M.

I am pleased to join in this review of the U.S.-Romania Trade Agreement. Both the Department of the Treasury, and the East-West Foreign Trade Board, chaired by Secretary Simon, strongly favor extension of the waiver pursuant to authority conferred by section 402 of the Trade Act. An extension of the waiver allowing the U.S.-Romania Trade Agreement to remain in force will promote continued improvement in our economic and political relations with that country and serve our national interest. It will allow us also to build up the important foundations laid in the last few years.

We are grateful, Mr. Chairman, for this opportunity to discuss the issues involved in the further expansion of U.S.-Romanian economic and political relations. We believe it can help create an environment of public understanding and confidence; an environment which will permit political and economic relations between the United States and Romania to develop in a mutually advantageous manner.

The United States and Romania have enjoyed a special relationship since at least 1969, when we chose Romania as the first country in Eastern Europe to be visited by a U.S. President since World War II. While the U.S. now enjoys extensive relations with other Eastern European countries, particularly in the areas of trade and joint scientific research, our relations with Romania are among the best with countries of the Warsaw Pact. This is demonstrated through scientific and cultural exchanges, by the frequency and frankness of consultations between senior officials, in trade and economic relations, and in other ways.

The U.S.-Romanian Trade Agreement has marked a major step forward in the development of our economic and political relations with Romania. We are convinced that the continuation of the Agreement will contribute to the growth and

stability of the economies of both countries, and to a further increase in two-way trade.

Strengthening good U.S.-Romanian relations, both economic and political, serve the interests of both countries. Romania has adopted a number of policy initiatives that are aimed at providing the country with a high degree of independence. More than any other Warsaw Pact country, Romania has pursued friendly relations with countries of differing political and economic systems -- with the United States, the People's Republic of China, the developing world, and with Israel as well as Arab countries. Romania participates actively in a number of international organizations. It is the only COMECON country which is a member of the IMF and the World Bank. Romania has acceded to the GATT. It leads the COMECON countries in the proportion of its trade with the West.

Romania's economic viability is the key to its strategy of independence. We believe that it is in our interest to encourage Romania's independent policy orientation through the expansion and improvement of our bilateral relations. Continuation of the Trade Agreement with Romania is essential to this end. Moreover, closer economic ties and expanding trade strengthen the economies of both countries.

Trade Overview

In our desire to encourage Romania's independent policy we have been in favor of the expansion of American-Romanian economic and commercial contacts for many years. The notable increase in total U.S.-Romanian trade during the last eleven years is a demonstration of the special relationship we have established with that country.

U.S.-Romanian trade turnover was $8 million in 1965, $80 million in 1970, and reached a high of over $407 million in 1974, when the Romanians purchased relatively large quantities of U.S. aircraft and grain (see attached table). Although total bilateral trade declined from 1974 to 1975, the 1975 volume of over $322 million was still almost twice the total in 1973, and more than three times the volume in 1972.

Throughout this period of increasing trade, the United States has consistently sustained a positive annual trade balance with Romania. Our exports, composed primarily of agricultural and manufactured goods, grew nearly thirty times, reaching $189.3 million last year. U.S. imports from Romania totaled $133 million in 1975, more than seventy times the 1965 volume. The bulk of last year's imports consisted, as in the past, of mineral fuels and related materials.

As you know, the United States granted Most-Favored-Nation (MFN) tariff status to Romania in August 1975, as part of the U.S.-Romania Trade Agreement. And Romania was made a beneficiary of the U.S. Generalized System of Preferences on January 1, this year. The initial impact of these actions on our bilateral trade is at least in part reflected in the trade figures available for the first half of this year.

U.S.-Romanian trade during the first six months of 1976 totaled $179 million, over 10 percent above the $158 million in goods traded during the same period in 1975. Romanian exports to the U.S. through June of 1976 reached $90 million, about two and one-half times the amount recorded during the same period of last year. This large increase in U.S. imports from Romania has, for the first time in recent years, resulted in a near balance in our two-way trade.

While extending MFN and GSP to Romania's products has contributed to this year's rise in our imports from Romania, the increase should not be attributed exclusively to these actions. Many factors other than tariff changes affect trade. In this instance, the recovery of the U.S. economy in 1976 has led to significant increases in our imports from many countries, including Romania. This is especially true of our imports of products such as fuel oil, which, in dollar terms, led the increase in U.S. imports of Romanian goods. During the first half of 1976, fuel oil imports from Romania reached over $42 million, representing almost one-half of all our imports from that country so far this year.

I would also like to point out that the trade data for the first six months of this year dispel the often expressed fear that the U.S. market will be flooded with large quantities of imports disrupting U.S. domestic business when our imports from nonmarket economy countries are given MFN tariff treatment. This simply has not been the case with Romania. Since granting MFN status to Romania last year, our imports from that country have, as expected, increased, but certainly not to levels that would be considered disruptive for the U.S. market. To date, the U.S. International Trade Commission has received no petition or request under Section 406 of the Trade Act to conduct an investigation to determine whether imports of an article from Romania are causing market disruption, nor has U.S. countervailing duty authority been invoked against Romanian imports. The only case which has arisen since Romania received MFN status is the issuance of an Antidumping Proceeding Notice on Romanian clear sheet glass. The issuance of such a notice, however, merely begins the formal investigative procedure and does not necessarily imply a formal finding of dumping.

A continuation of the increase of total U.S. imports from Romania, stimulated further by the Trade Agreement and the granting of GSP, can be expected in the future, but will undoubtedly be accompanied by a continuation of the rapid rise of Romanian purchases from the United States. Thus we envision that both countries will continue to gain from increased trade, resulting from our present economic policy toward Romania, in which the U.S.-Romania Trade Agreement is a critical element.

Prospects for U.S.-Romanian Trade

The prospects for future U.S. exports of goods and services to Romania are good, if we maintain the normalized trading conditions which the Trade Agreement has established. Both Governments anticipate a pickup in our bilateral trade during the last half of the year, bringing it to an annual total of around $400 million, a 16 percent increase over 1975. At the first session of our Joint Economic Commission both sides agreed to set a goal of $1 billion for our two-way trade by 1980. Romania's current Five-Year Plan projects substantial growth in the volume of Romania's foreign trade in support of a strong effort to expand and modernize Romanian industry. During the next five years, imports from the West are expected to increase by 60-70 percent over the 1971-75 period. If the U.S. share of Industrialized West exports to Romania continues at the level it has averaged over the past three years, we can expect to garner about 11 percent of the 60-70 percent increase.

U.S. exporters can expect to increase sales of plants, machinery and equipment in a number of industrial sectors particularly targeted for growth. Among these are machine building, chemicals, and petrochemicals. While the Romanian Five-Year Plan augurs well for increased exports of U.S. manufactured goods, we expect that U.S. agricultural exports will continue to comprise an important component of our total sales to Romania. Soybeans, cotton, and to a lesser extent wheat, have been and will continue to be leading U.S. exports in the agricultural sector.

Many barriers to commercial contacts in Romania and to the establishment of trading patterns and relationships have been largely overcome in the last few years. Knowledge that the U.S. has become an open and dependable market for Romanian exports is causing Romania to look to the United States as a source for high quality competitively priced manufactures, as well as important agricultural products.

MFN and Credits

Romania's ability to expand its imports from the United States and other Western countries, which help it to pursue its policy of independence, will of course depend upon its ability to earn or borrow the hard currency needed to finance these imports. To earn hard currency, Romania's exports must have access to Western markets, including our own. Our Western allies have given most-favored-nation status to imports from Romania. In granting MFN to Romania, the United States did not of course give that country any special privilege; we simply allowed Romania's products to enter the U.S. market and compete on an equal footing with the products of over 100 other nations which also receive MFN tariff treatment from us. Without a continuance of equal tariff treatment of Romania's products, we will force Romania to conduct much of its hard currency business with our West European competitors, and we will face the possibility of losing our potential exports to Romania in the process.

At the same time that access to Western markets is vital for Romania to continue its import program, sources of Western financing, both public and private, are equally important. In the 1960's, when the Romanians

began their move toward independence, this policy combined with rapid industrialization seemed likely to get them into political and financial trouble. In the 1970's, however, the Romanian approach, consisting of a strong commitment to succeed in world markets combined with considerable investment in selected industries, has begun to show impressive results in production and exports. But the Romanians still have a need to borrow in the West to help finance their ambitious import program and to service their existing outstanding debt.

In order for Romania to adequately manage its hard currency debt situation, the Romanian Government will have to monitor its economy carefully to ensure that it does not grow more rapidly than can be sustained.

In light of the continuing Romanian interest in Western sources of financing, the availability of credits is expected to be an important factor in Romania's purchasing decisions. Without a continuation of the Title IV waiver for Romania, Eximbank and the Commodity Credit Corporation would, of course, have to cease making loans or guarantees to that country.

As of June 30, 1976, Eximbank exposure in Romania was $75.6 million. In addition, outstanding preliminary commitments from Eximbank total about $21 million for proposes projects with a total export value of $49 million. While the flow of official credits from the U.S. represents only a small fraction of the capital available to Romania for trade in general, Eximbank credits are nonetheless necessary to facilitate export financing and to place U.S. firms on a competitive basis with their industrial competitors in doing business with that country. The inability of Romania to obtain Eximbank credits would probably result in a cancellation of many current and future orders for exports to Romania from U.S. businesses. Should that occur, our mutually beneficial trading relationship with Romania would be placed in jeopardy over the long-term.

It is my hope that counter-productive competition among Western industrial nations for exports through government-supported credits will soon end. At the end of the economic conference in November 1975, at Rambouillet, France, the Heads of State of the

Governments of France, Germany, Italy, Japan, the United Kingdom and the United States declared that their Governments would intensify efforts to achieve a prompt conclusion of discussions then underway, among themselves and Canada, concerning export credits. Renewed discussion among these Governments resulted in a consensus that counter-productive competition must be avoided with respect to government-supported export credits. While it was not possible to reach a formal agreement to implement this consensus, all of the Governments issued their own declarations or instituted internal procedures to establish their own guidelines on minimum rates and maximum terms on official export credits. These guidelines are designed to bring official export financing procedures closer to those standards determined by the market and thereby reduce the concessional element derived from government support. This will allow exporters to compete in world markets on the basis of price, quality, and servicing of product rather than on artificial incentives.

Commodity Credit Corporation (CCC) credits also play an important role in our trade with Romania. Since 1970, CCC has been quite active, financing a total of $137.9 million worth of U.S. agricultural exports to that country. Romania has been a good customer with prompt repayment. These credits have stimulated the growth of our agricultural exports, and at the same time, have supported the integration of Romania into the world community. If the waiver for Romania is not extended, the U.S. Government will also lose its authority to extend CCC credits to Romania.

Conclusion

Mr. Chairman, our experience with the U.S.-Romanian Trade Agreement has convinced us of its continued importance. In commercial and economic terms it has been a central propellant to the growth of U.S.-Romanian relations.

Though the question of linkage between the Trade Agreement and humanitarian issues is a very delicate and sensitive one for the Romanian Government, the record of Romanian action on humanitarian and emigration cases during the past year has contributed to

the achievement of the objectives of the Act. Secretary Simon, during his visit to Bucharest in June of this year, held frank discussions with Romania's leaders about the extension of the waiver pursuant to authority under Section 402 of the Trade Act. We were encouraged by the importance Romania's leaders place on this issue. The pivotal role that the U.S.-Romanian Trade Agreement plays in our bilateral relations became very apparent during the course of our discussions.

During the last year we believe that Romania's emigration performance has contributed to the achievement of the objectives of the Trade Act. There is no doubt that the continuation of the waiver will provide the climate in which we can expect the Romanian Government to continue to be responsive to our very deep interest in human rights. On the other hand, failure to extend the waiver could prompt a reaction by Romania which will be inimical to the humanitarian goals of the Trade Act.

In conclusion, then, we believe that extension of the waiver allowing the U.S.-Romanian Trade Agreement to remain in force is in our national interest.

oOo

U.S.-ROMANIAN TRADE TRENDS
(Millions of dollars)

	1965	1970	1971	1972	1973	1974	1975	Jan-Jun 1975	Jan-Jun 1976
U.S. Exports:									
Manufactured goods 1/	n.a.	18.8	15.4	18.8	31.7	108.6	56.9	32.2	17.8
Other	n.a.	47.5	37.0	50.3	84.8	168.5	132.4	89.6	71.4
Total	6.4	66.3	52.4	69.1	116.5	277.1	189.3	121.8	89.2
U.S. Imports	1.8	13.4	13.8	31.5	55.7	130.5	133.0	35.9	90.5
Trade Turnover	8.2	79.7	66.2	100.6	172.2	407.6	322.3	157.7	179.7
U.S. Trade Balance	4.6	52.9	38.6	37.6	60.8	146.6	56.3	85.9	-1.3

1/ SITC 5 through 8 statistics not available (n.a.) for 1965

Source: U.S. Department of Commerce, BEWT

Summary of the Principal Points Included in the Statement

1. Both the Department of the Treasury, and the East-West Foreign Trade Board, chaired by Secretary Simon, strongly favor extension of the waiver pursuant to authority conferred by section 402 of the Trade Act.

2. We believe that continuation of the Agreement serves our foreign policy interests. The dominant theme of Romania's foreign policy is the desire to maintain a high degree of independence. Continuation of the Trade Agreement with Romania is essential to this end, as Romania's economic viability is the key to its strategy of independence.

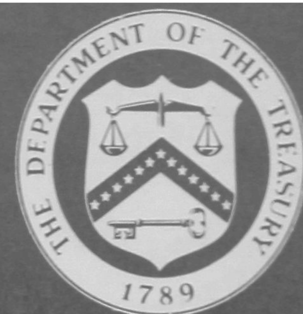
3. We believe that continuation of the Agreement serves the economic interests of both countries. We have continued to encourage the expansion and improvement of American-Romanian economic and commercial relations. The increase in our contacts is reflected by U.S.-Romanian trade figures. The $322 million in two-way trade in 1975 was 4 times that of 1970 and 40 times that of 1965.

4. Romania's current Five-Year Plan calls for substantial increases in imports of goods traditionally supplied by the United States. Romania's ability to expand its imports from the United States and other Western countries, and to continue to pursue its policy of independence, will depend upon its ability to earn hard currency needed to finance these imports. To earn hard currency, Romania's exports must have access to Western markets, including our own. Without a continuance of equal tariff treatment of Romania's products, we will force Romania to conduct much of its hard currency business with our West European competitors who have granted most-favored-nation status to imports from Romania, and we will face the possibility of losing our potential exports to Romania in the process.

5. While access to Western markets for Romania's products is vital for Romania to continue its import program and its independent policy, sources of Western financing, including U.S. Eximbank and Commodity Credit Corporation (CCC), are equally important. Without a continuation of the Title IV waiver for Romania, Eximbank and the CCC would have to cease making loans or guarantees to that country. Should that occur we will face the possibility of losing potential exports to Romania and place in jeopardy over the long-term our mutually beneficial trading relationship.

6. Our experience with the U.S.-Romanian Trade Agreement gives us no cause to question its continued usefulness. Though the question of linkage between the Trade Agreement and humanitarian issues is a very delicate and sensitive one for the Romanian Government, the record of Romanian action on humanitarian and emigration cases during the past year has contributed to the objectives of the Trade Act.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE AT 4:00 P.M. September 13, 1976

TREASURY TO AUCTION $2,500 MILLION OF 2-YEAR NOTES

The Department of the Treasury will auction $2,500 million of 2-year notes to refund $1,681 million of notes held by the public maturing September 30, 1976, and to raise $819 million new cash. Additional amounts of these notes may be issued at the average price of accepted tenders to Government accounts and to Federal Reserve Banks for their own account in exchange for $342 million maturing notes held by them, and to Federal Reserve Banks as agents of foreign and international monetary authorities for new cash only.

Details about the new security are given in the attached highlights of the offering and in the official offering circular.

Attachment

o0o

WS-1080

HIGHLIGHTS OF TREASURY OFFERING TO THE PUBLIC OF 2-YEAR NOTES TO BE ISSUED SEPTEMBER 30, 1976

September 13, 1976

Amount Offered:

To the public	$2,500 million

Description of Security:

Term and type of security	2-year notes
Maturity date	September 30, 1978
Call date	No provision
Interest coupon rate	To be determined based on the average of accepted bids
Investment yield	To be determined at auction
Premium or discount	To be determined after auction
Interest payment dates	March 31 and September 30
Minimum denomination available	$5,000

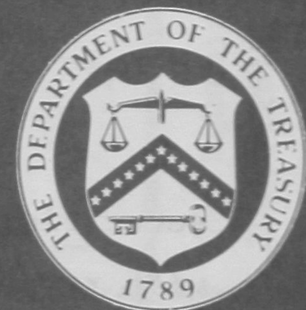
Terms of Sale:

Method of sale	Yield auction
Accrued interest payable by investor	None
Preferred allotment	Noncompetitive bid for $500,000 or less
Deposit requirement	5% of face amount
Deposit guarantee by designated institutions	Acceptable

Key Dates:

Deadline for receipt of tenders	Tuesday, September 21, 1976, by 1:30 p.m., EDST
Settlement date (final payment due)	
a) cash or Federal funds	Thursday, September 30, 1976
b) check drawn on bank within FRB district where submitted	Monday, September 27, 1976
c) check drawn on bank outside FRB district where submitted	Friday, September 24, 1976
Delivery date for coupon securities	Thursday, September 30, 1976

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE AT 4:00 P.M. September 14, 1976

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 $5,200 million , or thereabouts, to be issued September 23, 1976, as follows:

91-day bills (to maturity date) in the amount of $2,100 million, or thereabouts, representing an additional amount of bills dated June 24, 1976, and to mature December 23, 1976 (CUSIP No. 912793 C7 9), originally issued in the amount of $3,103 million, the additional and original bills to be freely interchangeable.

182-day bills, for $3,100 million, or thereabouts, to be dated September 23, 1976, and to mature March 24, 1977 (CUSIP No. 912793 F3 5).

The bills will be issued for cash and in exchange for Treasury bills maturing September 23, 1976 outstanding in the amount of $5,208 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,876 million. 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, September 20, 1976. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government

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

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $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 September 23, 1976, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 23, 1976. 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.

oOo

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

FOR IMMEDIATE RELEASE September 14, 1976

SUMMARY OF LENDING ACTIVITY

August 16-August 31, 1976

The Federal Financing Bank activity for the period August 16 through August 31, 1976 was announced as follows by Roland H. Cook, Secretary:

The Federal Financing Bank made the following loans to utility companies guaranteed by the Rural Electrification Administration:

Date	Borrower	Amount	Maturity	Interest Rate
8/16	Southern Telephone Company	$ 100,000	12/31/10	8.092%
8/16	United Power Association	2,000,000	12/31/10	8.092%
8/16	Seminole Electric Association	379,000	12/31/10	8.092%
8/17	Associated Electric Cooperative, Inc.	3,000,000	12/31/10	8.074%
8/20	Alabama Electric Cooperative, Inc.	10,013,000	12/31/10	8.093%
8/20	South Mississippi Electric Power Assn.	6,065,000	8/28/78	6.787%
8/26	Big Rivers Electric Corporation	506,000	12/31/10	8.051%
8/27	Associated Electric Cooperative, Inc.	5,000,000	12/31/10	8.053%
8/27	Southern Illinois Power	1,415,000	8/27/78	6.709%

Interest payments on the above REA loans are made on a quarterly basis.

The Bank made the following loans to the United States Railway Association (USRA):

Date	Note	Amount	Maturity	Interest Rate
8/16	8	$2,850,000.00	4/30/79	6.992%
8/25	6	450,000.00	12/26/90	8.055%

WS-1082

On August 29, USRA rolled over Note #3 in the amount of $1,029,004.05 and borrowed $4,562.01 to pay the interest due. The loan matures November 26, 1976, and bears interest at a rate of 5.372%. USRA borrowings from the FFB are guaranteed by the Department of Transportation.

The FFB made the following advances to borrowers guaranteed by the Department of Defense under the Foreign Military Sales Act:

Date	Borrower	Amount	Maturity	Interest Rate
8/16	Government of Morocco	$10,367,716.00	6/30/84	7.487%
8/20	Government of Brazil	438,090.10	3/15/83	7.368%
8/20	Government of Brazil	35,700.00	6/30/83	7.409%
8/25	Government of Israel	124,276.60	6/10/85	7.522%
8/26	Government of Isreal	28,743,545.67	6/30/06	8.080%
8/30	Government of Nicaragua	63,000.00	6/30/80	6.948%
8/31	Government of Brazil	24,410.00	6/30/83	7.345%
8/31	Government of Brazil	113,139.79	3/15/83	7.311%

The National Railroad Passenger Service (Amtrak) made the following drawings from the FFB:

Date	Note #	Amount	Maturity	Interest Rate
8/16	8	$10,000,000	11/15/76	5.413%
8/18	8	10,000,000	11/15/76	5.395%
8/30	8	2,000,000	11/15/76	5.329%

The Student Loan Marketing Association (SLMA) rolled over the following principal amounts on loans previously made by the Federal Financing Bank:

Date	Amount	Maturity	Interest Rate
8/17	$20,000,000.00	11/23/76	5.408%
8/31	10,000,000.00	11/30/76	5.354%

SLMA borrowings are guaranteed by HEW.

On August 18, the Bank purchased the following debentures from Small Business Investment Companies:

Borrower	Amount	Maturity	Interest Rate
J. H. Foster & Company	$1,000,000	8/1/81	7.445%
Housing Capital Corp.	2,000,000	8/1/83	7.755%
Dixie Business Investment Company	200,000	8/1/86	7.965%
Lake Success Capital Corp.	950,000	8/1/86	7.965%
New Mexico Capital Corp.	1,500,000	8/1/86	7.965%
Northeast Small Business Investment Corp.	430,000	8/1/86	7.965%
Northwestern Capital Corp.	1,000,000	8/1/86	7.965%
United Business Capital, Inc.	175,000	8/1/86	7.965%
Van Rietschoten Capital Corp.	1,000,000	8/1/86	7.965%
Washington Capital Corp.	1,000,000	8/1/86	7.965%

On August 20, the Federal Financing Bank purchased from the Department of Health, Education and Welfare (HEW) Series E notes in the amount of $1,035,000. The notes mature July 1, 2000, and bear interest at a rate of 8.062%. The Department had previously acquired the rates which were issued by various public agencies under the Medical Facilities Loan Program. The notes purchased by the Bank are guaranteed by HEW.

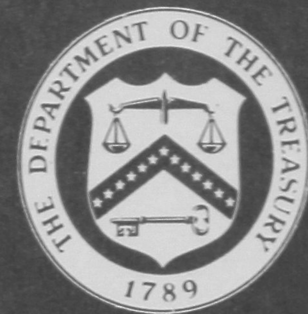
On August 27, the FFB purchased a $450 million 5 year Certificate of Beneficial Ownership from the Farmers Home Administration. The maturity is August 27, 1981. The interest rate is 7.552% on an annual basis.

On August 31, the Tennessee Valley Authority borrowed $285 million to repay $260 million of notes maturing with the Bank and to raise additional funds. The loan matures November 30, 1976, and bears interest at a rate of 5.340%

Federal Financing Bank loans outstanding on August 31, 1976 totalled $25.1 billion.

# # #

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE UPON DELIVERY

Statement of
William M. Goldstein
before the
House Select Committee on Professional Sports

September 16, 1976

Mr. Chairman and Members of the Committee:

My name is William M. Goldstein, Deputy Assistant Secretary for Tax Policy of the Treasury Department. I welcome the opportunity to appear before you to comment on the significant tax rules applicable to owners of professional sports teams. I will first discuss the significant tax rules under present law and then briefly summarize the important modifications to those rules which would flow from enactment of H.R. 10612, the Tax Reform Act of 1976, as agreed to by the conferees only last week.

Present law

The most significant tax considerations under present law for owners or prospective owners of professional sports teams are generally considered to be (1) amortization or depreciation of player contracts, (2) capital gain treatment on the sale or exchange of a franchise, and (3) recapture of depreciation taken on player contracts.

When a professional sports team is purchased, the most significant assets acquired by the purchaser are the player contracts and the league franchise. Other acquired assets include miscellaneous equipment, including both sports equipment and office equipment, and, in some cases, the right to participate in television network affiliation contracts.

Because player contracts have been determined to be intangible assets with limited and reasonably ascertainable useful lives extending substantially beyond the taxable year in which they are acquired, the cost of obtaining these contracts must be capitalized and amortized or depreciated on a straight-line basis over their useful lives under section 167 of the Internal Revenue Code. (Rev. Rul. 67-379, 1967-2 C.B. 127 and Rev. Rul. 71-137, 1971-1 C.B. 104). The cost of player contracts includes both amounts paid upon their purchase and any bonuses paid to players for signing the contracts.

Since in most professional sports the useful lives of player contracts are generally considered to vary from 3 to 6 years, the purchaser of a team has a significant interest in allocating a substantial portion of the purchase price to the player contracts in order to claim during the first few years of operations the tax benefit of significant depreciation deductions attributable to the cost of acquiring those contracts. Not only can such deductions be used to offset operating income from the team itself (thus producing positive cash flow where operating revenues exceed operating expenses), but also, if, as is often the case during the initial years of operation of a new team, the team does not produce enough operating income to absorb all of those depreciation deductions, the losses thereby produced can be used to offset or "shelter" other income of the owner or owners where the ownership of the team is held in the form of a sole proprietorship, partnership, or subchapter S corporation.

Of course, to the extent that the amount of the purchase price allocated by the purchaser to player contracts accurately reflects the economic realities of the transaction, and to the extent that the length of the useful lives assigned those contracts is also realistic, the purchaser should, under our current tax laws, be entitled to whatever tax benefits are produced by the depreciation deductions to the same extent that taxpayers in other businesses enjoy the benefits of similar deductions for the cost of acquiring other types of depreciable assets.

The league franchise acquired by the purchaser of a professional sports team is also an intangible asset. Unlike the player contracts, however, the league franchise

does not have a limited and reasonably ascertainable useful life, and is therefore not a depreciable asset. The cost or basis of the league franchise is, of course, taken into account in determining the amount of gain or loss in the event of a subsequent sale of the team.

In this connection, section 1253(e) of the Internal Revenue Code specifically excepts "the transfer of a franchise to engage in professional football, basketball, baseball, or other professional sport" from the tax treatment accorded to the transfer of other types of franchises by section 1253. Generally, section 1253(a) operates to exclude from treatment as a sale or exchange of a capital asset any transfer of a franchise (e.g., a "fast food" franchise) if the transferor retains certain powers, rights, or continuing interests in the subject matter of the franchise. Thus, section 1253(e), which to my knowledge is the only provision in the Internal Revenue Code expressly applicable to professional sports franchises, permits the determination of whether the sale or exchange of such a franchise qualifies for capital gain treatment to be made under traditional rules without regard to the special rules otherwise applicable to franchise transfers under section 1253. Therefore, in the ordinary case in which the holding period requirement is met, the transferor of a professional sports franchise will obtain the benefit of capital gain treatment on the sale or exchange of the franchise (Rev. Rul. 71-123, 1971-1 C.B. 227).

Player contracts owned for more than 6 months by a professional sports team are considered to be "section 1231 assets" or "property used in the trade or business". (Rev. Rul. 67-380, 1967-2 C.B. 291, Rev. Rul. 71-137, _supra_, and Rev. Rul. 71-123, _supra_.) Therefore, to the extent that the amount received by the transferor of a sports team which is allocated to player contracts exceeds the adjusted basis and depreciation recapturable under section 1245 which is applicable to those contracts, such gain will be entitled to capital gain treatment. Since the gain realized on the sale or exchange of player contracts is subject to the recapture provisions of section 1245 (that is, the gain is treated as ordinary income to the extent of previously claimed depreciation), it is generally more advantageous for the seller of a sports team to allocate as much of the purchase price as possible to the league franchise rather than the player contracts. In situations in which most or all of the players whose contracts have been depreciated have either retired or been cut, depreciation recapture is, of course, considerably less significant to the seller.

Thus, to the extent that depreciation recapture is a significant consideration, the objectives of the purchaser and seller of a professional sports team are normally inconsistent. That is, the purchaser desires to allocate as much of the purchase price as possible to depreciable player contracts, while the seller (unless, for example, he has net operating losses which may be carried forward to offset the ordinary income produced by depreciation recapture) wants to allocate as much of the purchase price as possible to the league franchise in order to avoid depreciation recapture and maximize capital gain treatment. There are no specific statutory rules under present law governing the manner in which the purchaser and seller must make their allocations. Generally, however, the allocation of the entire purchase price to the various assets purchased must reflect the relative values of the assets. In some cases the purchasers of professional sports teams have allocated what would generally be considered to be unrealistically high percentages (e.g., 98.5%) of purchase prices to the value of player contracts.

H.R. 10612 modification

H.R. 10612 as agreed to by the conferees contains two significant new provisions affecting the tax attributes of ownership of professional sports teams. The first such provision would add a new section 1056 to the Internal Revenue Code limiting the amount of the purchase price which can be allocated by the purchaser of a team to player contracts. The new section essentially provides that on the sale or exchange of a sports franchise, the basis of the transferee in any player contract transferred may not exceed the sum of the transferor's adjusted basis in the contract plus the amount of any gain recognized by the transferor on the transfer of the contract. Thus, the provision prohibits the purchaser from allocating to player contracts any more of the purchase price than is so allocated by the seller. The section also creates a presumption that not more than 50 % of the purchase price would be allocable to player contracts unless the taxpayer can satisfy the Secretary of the Treasury that a greater allocation is proper under the circumstances.

The other provision would add a new paragraph to section 1245(a) of the Internal Revenue Code altering significantly the extent of recapture of depreciation taken on player contracts upon the sale of a professional sports team. The new paragraph essentially provides that on the sale or exchange of a sports franchise the "recomputed basis" (for

purposes of section 1245) of the transferor in any player contracts transferred shall be the greater of either (1) the previously unrecaptured depreciation with respect to player contracts acquired by the transferor when he acquired the franchise, or (2) the previously unrecaptured depreciation with respect to the player contracts being transferred. Previously unrecaptured depreciation with respect to player contracts acquired when the franchise was acquired is defined as the excess of the sum of the depreciation deductions allowed or allowable to the transferor with respect to such contracts plus the deductions allowed or allowable to the transferor for losses (i.e., abandonment losses upon the retirement of a player or his failure to make the team) with respect to such contracts over the aggregate of the amounts of depreciation already recaptured as ordinary income upon the prior disposition of such contracts. Previously unrecaptured depreciation with respect to the player contracts being transferred is defined as the amount of depreciation deductions allowed or allowable to the transferor with respect to such contracts. Thus, this new paragraph provides generally for the recapture as ordinary income on the sale of a sports franchise of the greater of (1) the sum of the previously unrecaptured depreciation and abandonment losses taken with respect to player contracts which were acquired when the seller initially acquired the team, or (2) the amount of depreciation taken with respect to the player contracts being transferred.

The provision relating to the allocation of purchase price to player contracts is to apply to sports franchises acquired after December 31, 1975. The provision relating to the recapture of depreciation and abandonment losses is to apply to the seller of a sports franchise which was acquired by him after December 31, 1975.

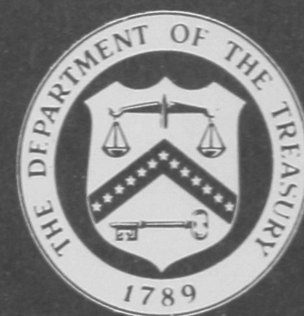
The position of the Treasury Department with respect to these and other provisions applicable to sales or exchanges of professional sports teams which the Senate deleted from the House bill has been that no special legislation is necessary to curb any abuses which might arise. If the purchaser of a team allocates an unrealistically high percentage of the purchase price to player contracts or writes them off over too short a period of time, such an abuse can be dealt with administratively by the Internal Revenue Service as is done in the case of such a misallocation in the context of any other business property subject to amortization or depreciation. Thus, the new rule limiting the amount of the purchase price which may be allocated to player contracts by the purchaser to the amount so allocated by the seller is unnecessary, although not particularly objectionable.

In addition, the new depreciation recapture rule, providing for the recapture on the sale or exchange of a sports franchise of previously unrecaptured depreciation and abandonment losses taken on player contracts other than those being transferred in the sale goes well beyond the normal asset-by-asset depreciation recapture rules in the Internal Revenue Code. There is no apparent reason for isolating sports franchises for such special treatment.

In summary, we believe that any abuses which arise in the context of the sale or exchange of a professional sports team can be dealt with adequately at the administrative level, and that no special tax legislation is required in this respect. However, we have no strong objection to the two new provisions in H.R. 10612 as agreed to by the conferees.

It has been a pleasure for me to appear before you today, and I thank you for the opportunity.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE September 15, 1976

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $2,860 million of 52-week Treasury bills to be dated September 21, 1976, and to mature September 20, 1977, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 1 tender of $5,420,000)

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	94.389	5.549%	5.87%
Low -	94.368	5.570%	5.90%
Average -	94.377	5.561%	5.89%

Tenders at the low price were allotted 47%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted
Boston	$ 39,185,000	$ 6,655,000
New York	5,232,365,000	2,657,035,000
Philadelphia	24,895,000	1,895,000
Cleveland	104,640,000	4,640,000
Richmond	72,010,000	29,465,000
Atlanta	30,435,000	9,135,000
Chicago	417,275,000	74,245,000
St. Louis	45,480,000	17,715,000
Minneapolis	56,135,000	14,135,000
Kansas City	14,250,000	7,195,000
Dallas	11,000,000	3,000,000
San Francisco	350,620,000	36,110,000
TOTAL	$6,398,290,000	$2,861,225,000

The $2,861 million of accepted tenders includes $ 76 million of noncompetitive tenders from the public and $948 million of tenders from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities accepted at the average price.

An additional $ 50 million of the bills will be issued to Federal Reserve Banks as agents of foreign and international monetary authorities for new cash.

WS-1084

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

September 16, 1976

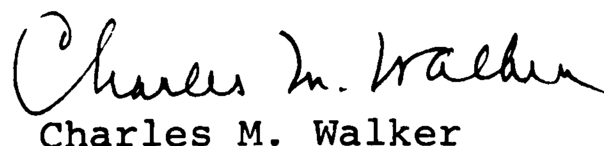
Message to Treasury Employees

The recent death of Nathan N. Gordon, former Deputy to the Assistant Secretary of the Treasury for Tax Policy, has left me with a feeling of sorrow at the loss of a friend and a respected colleague.

Nate Gordon retired from Treasury December 31, 1975 following a distinguished career spanning more than 25 years as an economist in the tax policy area. For the last two decades, Nate played a principal role in the tax treaty program of the United States, and served as principal representative of the United States in major international fiscal organizations.

I knew Nate Gordon as a highly skilled treaty negotiator, who exhibited both toughness and fairness, and whose sense of humor often carried the day by lessening the tensions of those on both sides of the bargaining table. The respect and admiration of his colleagues both in the United States and in other countries, as well as his significant contributions to tax policies, resulted in many honors. Among these, the Treasury Department bestowed upon Nate Gordon the "Meritorious Service Award", and the "Exceptional Service Award". The French Government has named him an "Officier" in the "Ordre Nationale du Merit".

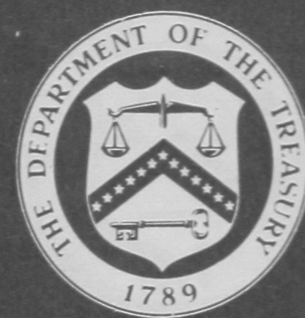
Words can do little to assuage the grief of his family. But there may be some comfort to be shared by the family in the knowledge that Nate will be sorely missed and remembered by his many friends at the Treasury Department.



Charles M. Walker

WS-1085

he Department of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE AT 4:00 P.M. September 16, 1976

TREASURY TO AUCTION $2,500 MILLION OF 5-YEAR NOTES

The Department of the Treasury will auction $2,500 million of 5-year notes to raise new cash. Additional amounts of the notes may be issued to Federal Reserve Banks as agents of foreign and international monetary authorities at the average price of accepted tenders.

Details about the new security are given in the attached highlights of the offering and in the official offering circular.

Attachment

WS-1086

HIGHLIGHTS OF TREASURY
OFFERING TO THE PUBLIC
OF 5-YEAR NOTES
TO BE ISSUED OCTOBER 12, 1976

September 16, 1976

Amount Offered:

To the public	$2,500 million

Description of Security:

Term and type of security..................	5-year notes
Maturity date..............................	November 15, 1981
Call date..................................	No provision
Interest coupon rate.......................	To be determined based on the average of accepted bids
Investment yield...........................	To be determined at auction
Premium or discount........................	To be determined after auction
Interest payment dates.....................	May 15 and November 15 (first payment on May 15, 1977)
Minimum denomination available.............	$1,000

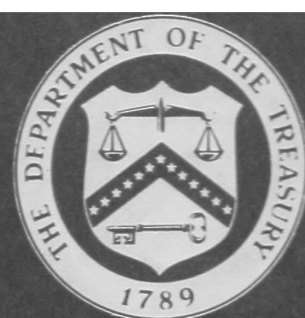
Terms of Sale:

Method of sale.............................	Yield auction
Accrued interest payable by investor........	None
Preferred allotment........................	Noncompetitive bid for $500,000 or less
Deposit requirement........................	5% of face amount
Deposit guarantee by designated institutions..............................	Acceptable

Key Dates:

Deadline for receipt of tenders............	Tuesday, September 28, 1976, by 1:30 p.m., EDST
Settlement date (final payment due)	
a) cash or Federal funds..............	Tuesday, October 12, 1976
b) check drawn on bank within FRB district where submitted........	Thursday, October 7, 1976
c) check drawn on bank outside FRB district where submitted........	Wednesday, October 6, 1976
Delivery date for coupon securities.........	Tuesday, October 12, 1976

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE September 17, 1976

DALE S. COLLINSON RESIGNS FROM TREASURY
TO JOIN NEW YORK LAW FIRM

Dale S. Collinson, Tax Legislative Counsel, resigned his post September 10, 1976, to enter the private practice of law as a partner in the New York City law firm of Willkie Farr & Gallagher.

Secretary of the Treasury William E. Simon accepted Mr. Collinson's resignation with a "sense of loss" and noted Mr. Collinson's outstanding qualities "while serving your country so well."

Referring to the Exceptional Service Award he presented to Mr. Collinson, Secretary Simon noted that it indicated the high esteem "which I, and the other members of the staff, have for you. In fact it is, if anything, an understatement of the dedication, skill, understanding, and personal integrity which you brought to your work here."

As Tax Legislative Counsel, Mr. Collinson played a major role in the development of the Administration's tax cut proposals of October 1975, and he represented the Administration during the Ways and Means Committee consideration of the Estate and Gift Tax Reform Act of 1976. He also participated in the Tax Reduction Act of 1975, and in the tax reform bill.

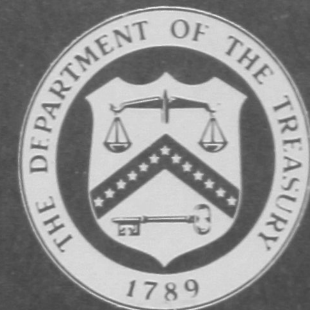
Prior to his appointment as Tax Legislative Counsel in December 1975, Mr. Collinson served as Deputy Tax Legislative Counsel (1975), Associate Tax Legislative Counsel (1973-74), and Attorney-Advisor (1972-73) with the Treasury Department. From 1966-72, Mr. Collinson was Assistant Professor and Associate Professor of Law at Stanford Law School. From 1969-70, he was an associate in a Brussels, Belgium law firm.

WS-1087

Mr. Collinson, a native of Oklahoma, received an A.B. degree (Summa Cum Laude) from Yale University in 1960, and an LL.B. degree from Columbia University in 1963, where he was Notes and Comments Editor of the Law Review. He and his wife, the former Susan Waring Smith of Irvington-on-Hudson, New York, have a son, Stuart.

# # #

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



TO BE RELEASED AT 7:00 P.M. EDST

ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE
JOHNSON WAX GLOBAL MANAGEMENT CONFERENCE
WASHINGTON, D.C., SEPTEMBER 18, 1976

Thank you Sam, Mr. Martin, Distinguished guests, Ladies and Gentlemen,

When your Chairman and Chief Executive Officer, Sam Johnson invited me to speak at this conference I was delighted to accept. I think we are fortunate indeed to have in America a company of the calibre of Johnson's Wax, -- a company that believes that "its fundamental vitality and strength" lies in its employees.

Thoedore Roosevelt once said: "The foundation stone of national life is and ever must be the high individual character of the individual citizen." This is as true of businesses as it is of nations.

That is why it is a special pleasure for me to attend this Global Management Conference of a corporate family that has set an example of responsibility and high standards for nearly a century.

For the past sixty years that example has been not only national, but international in scope. Today, with 40 wholly owned or controlled foreign subsidiaries, 12 manufacturing distributors and 6,000 employees outside the United States, Johnson Wax has a greater international presence than some sovereign states. And with 50 percent of your corporate sales and profits derived from your international activities, you are almost as vulnerable to changes in the world economy as many countries.

Before I go any further, let me tell you how favorably impressed I am with the "This We Believe" statement that you are considering at this conference. As an American corporation with a major foreign presence, you have not only a narrow business interest, but also a grave national responsibility. Along with the thousands of other American business executives

serving overseas, those of you in Johnson's foreign operations form a kind of unofficial American diplomatic corps. Your standard of ethics -- the corporate and personal principles you work and live by - play an important role in shaping what others think about America.... for better or worse. And your "This We Believe" credo measures up to the highest moral and ethical standards.

It isn't easy being a diplomat -- much less being a business executive at the same time. Yet, on the whole, America's overseas executives have done an outstanding job in the post-war era both as a major force in the economic revival of western Europe and as pioneers in the economic development of many struggling Third World nations.

Unfortunately, recent developments have shown us that a few rotten apples can cause serious damage not only to the American corporate image abroad, but to our country and our people as well.

So the times demand an extra effort and an extra high standard of conduct from the vast majority of decent, honest American executives abroad -- both as businessmen and as unofficial representatives of our country.

The fact is that you have to do a little better than many official diplomats. Official diplomacy, after all, is sometimes a rather slippery business based on obscuring rather than on clarifying goals and conduct. As one humorous definition in verse puts it:

> Diplomacy is to do and say
> The nastiest thing in the nicest way...
> (Isaac Goldberg)

Your job, on the other hand, is to conduct yourselves as openly, honestly and efficiently as possible -- to earn the confidence and trust of your foreign hosts and customers, and to make the American label, like the American flag, a symbol of integrity, strength, decency, and progress.

We have seen what can happen when American business forgets its ethical obligations overseas. And the results have been not only economically damaging to the corporations involved, but politically devastating to both America's national interests and those of the host countries.

For this reason, I would like to spend my time with you tonight in a brief economic review of where we stand as a nation, domestically and globally, and then in discussing

with you the crucial question of business ethics, and their importance in preserving our economic freedom at home, and our economic vitality around the world.

A nation's foreign interests are determined by an enormous range of consideration -- political, military, even emotional but today most of all, economic. And, in a free country like ours, they are of vital interest to every citizen in every walk of life.

While this has always been true, it is a far more obvious and far more important fact of life today, in an age that has both the greatest potential for human cooperation and betterment -- and the greatest potential for human destruction -- in the history of mankind.

Many of you are probably familiar with the old Chinese curse: "May you live in interesting times." All of us, I believe, would agree that, from an economic as well as a political point of view, we have been living in particularly interesting times lately. In the past few years the world economy has sustained a number of severe jolts -- a fourfold increase in oil prices, large-scale money movements between nations, collapse of the old monetary order, inflation and recession. These have had an enormous impact on the economies of developed and developing nations alike and fluctuations in economic fortunes have led to changes, at times abrupt, in the political fortunes of these countries.

The role of the United States in meeting these challenges has been vital. A quarter century ago, it was commonplace to observe that when the U.S. sneezed, the world caught cold and when the U.S. caught cold, the world came down with pneumonia. while that is no longer as true today as it was then, we are still the major economic force in the world. With less than 6 percent of the world's population we account for over 25 percent of its annual production, and our exports and imports each are running at over $100 billion annually -- more than those of any other single nation.

The health of the U.S. economy, then remains vital to the economic health of other countries. And their political and social stability depends in large measure on their economic health. These past years have clearly demonstrated to us and many others that no nation or group of nations can solve their economic problems in isolation. We have witnessed how inflation and recession affect us all. We have observed that no country can achieve success by attempting to export its economic troubles. And we have come to see that the most significant contribution we can make to economic progress in the world is to restore durable prosperity in our own domestic economies.

For the United States this means, first, that we must follow stable fiscal and monetary policies aimed at reducing inflation and laying the foundation for durable, non-inflationary domestic growth, and second, that we must translate these same policies internationally to assure the existence of a free and open world trade and investment order. That, it must be recognized, will be America's greatest contribution to world economic stability and -- because the economy lies at the heart of the body politic -- a significant contribution to world political stability as well.

At home, our economy is in the midst of a healthy and balanced recovery;

-- Inflation has been cut more than in half since the beginning of 1975;

-- employment is at all-time highs;

-- Industrial output, retail sales, the GNP, personal income, the stock market have registered important gains.

And yet the decline in unemployment, though below its recession high point, is irregular and far slower than we are willing to tolerate. And inflation is by no means under firm control and remains the most dangerous enemy of that durable prosperity which we and all nations are seeking to achieve.

The ruinous inflation that crested in 1974 was the chief cause of the recession that followed. If we embark once again on a course of excessive fiscal and monetary policies, we will only rekindle another round of inflation and an even worse recession.

In our own economic interest, and in the interest of global economic stability, our first responsibility must be to stand by economic policies that will ensure healthy, balanced growth and prevent a resurgence of inflation.

Thus one of the biggest contributions we can make to global economic health begins right here at home. We uphold not only a narrow national interest, but the economic well being of our neighbors and trading partners around the world.

In determining our international economic policies we must emphasize the same principles of open markets and competition that have served America so well during its two-hundred year history. Our current monetary and trade reform

efforts will shape the world economic system far into the future. We can either promote increased competition, the reduction of tariffs and non-tariff barriers, equitable trading rules and open access to markets and raw materials; or, the world economy will develop unwanted cartels to control prices and supplies, protectionism will once again disrupt the flow of trade and capital, and instead of greater international cooperation and shared progress, the world marketplace will be plagued by negative conflicts and economic stagnation.

In the area of international monetary affairs, the past several years have shown progress and accomplishment. After years of difficult and sometimes contentious debate, the United States and other IMF member nations have reached fundamental agreement on a comprehensive reform on the international monetary system.

The new monetary system builds importantly on two critical features of the Bretton Woods framework.

-- First, the central, pivotal role of the IMF as the institutional heart and monitor of the system will be continued and strengthened.

-- Second, the essential aims of Bretton Woods, which give cohesion and direction to the philosophy of a liberal world monetary order, will be reaffirmed.

But while the new system provides the same aims as the Bretton Woods system and continues to rely primarily on the IMF as the institution for achieving its purposes, it differs in other critical respects.

The Bretton Woods system was created against the backdrop of a different world -- the world of the 1930's and 40's in which levels of international trade were very low; in which capital flows had virtually dried up and the value of international investment to international prosperity was not recognized; in which reliance on direct controls was widespread; in which interest rate and monetary policy instruments had fallen into relative disuse; in which the attention of policy officials was directed single-mindedly toward jobs and employment goals.

Inevitably, some of the features of a monetary system designed to meet the problems of that world have been rendered obsolete by today's changed conditions -- when world trade has grown by about 3000% since 1950 and capital

flows have reached proportions that would astound Harry Dexter White, Lord Keynes and the other architects of the old system. These same men would also be saddened by the struggle of nations to get below double-digit inflation and at the same time deal with the modern day twins of inflation, and a high level of unemployment.

Bretton Woods was based on the idea that stability could be imposed from without. Keynes, White, and their followers assumed that if countries were required to adhere to fixed exchange rates, to be altered only after fundamental economic changes had occurred, and were supplied with moderate amounts of credit from the International Monetary Fund, that arrangement would provide adequate leverage -- at least on deficit members -- to encourage stable economic policies.

The system had an elegant symmetry but even in its heyday it did not work as it was intended. Countries with a balance of payments surplus were reluctant to permit their currencies to appreciate. On the other hand, devaluation by countries experiencing balance of payments deficits were frequent and what was intended to be a system of symmetrical adjustment became lopsided. The U.S. was at the center of the system -- pinned down. Other countries could adjust exchange rates relative to the U.S., but we did not enjoy the same privilege.

By the 1960's it was clearly demonstrated that the most important single price in the U.S. was the price of the dollar. The relationship of the dollar to other currencies plays a significant role in determining what is produced in the U.S. and what is produced elsewhere. Exports, imports, location of production facilities, and capital flows are all in varying degrees a function of the exchange rate.

Then, preceded by a series of exchange crises, hurried conferences, makeshift remedies and a pervasive "Let's keep a stiff upper lip attitude" the old system collapsed in 1971. The effort to put it back together failed and the end occurred in 1973 when the dollar floated.

The new system takes a different approach. It does not rely on the system to force stability on member countries. Instead, it looks to the policies of member countries to bring stability to the system. It acknowledges that we can never assure lasting stability in exchange rates between currencies if the underlying trends in various economies are sharply different in pace or direction.

Just as the United States vigorously has supported international monetary reform, we also support the continued growth of a free and open world trading and investment order. One of the most encouraging and significant postwar economic developments has been the dramatic expansion of trade among market economies -- from a level of $55 billion in 1950 to over $1.6 trillion in 1975. We believe that in strengthening these bonds of trade, we strengthen the bonds of peace, understanding and interdependence.

The case for free trade is based on the general concept of comparative advantage. Trade barriers typically reduce or eliminate the exchange of goods that would benefit all countries. Similarly, trade restrictions, which insulate domestic producers from foreign competition, reduce the pressures for controlling price increases and for stimulating productivity.

Our trading system has recently undergone -- and survived -- a massive ordeal by fire. In the wake of the most serious economic problems in 40 years, inflation, recession, the energy crisis and the other disruptions they caused, neither we nor our trade partners resorted to potentially disastrous dog-eat-dog, beggar-thy-neighbor policies.

This is an important accomplishment. We must build on it and expand it as we move from a period of economic recovery to a period of economic expansion.

The major thrust of U.S. trade policy as embodied in the multilateral trade negotiation should be:

-- To negotiate for more open access to markets and supplies with emphasis on equity and reciprocity;

-- To increase flexibility in providing escape clause relief and adjustment assistance for American industries, workers and individual firms suffering injury from import competition ;

-- To diversify the types of actions the United States can take in responding to unfair international trade practices;

-- And to expand normal commercial relationships with the non-market economies.

In summary then, the same economic principles that have worked to create prosperity, stability and freedom at home can also help to shape a freer, more prosperous and liberal economic order. We desire a shared prosperity. That prosperity

can only come through increased flows of investment. Through increased investment we achieve greater productivity and through greater productivity we achieve a higher standard of living for all.

As the nation that accounts for over one fourth of the world economy, we have a special obligation to help others to help themselves -- in the marketplace and through the strong support of international financial and development institutions, in concert, not in competition with, the private sector.

If we stand by these commitments, if we preserve and expand a strong economy at home and continue to lead the fight for a freer, more prosperous world economy, then what was once called the American dream -- the seemingly impossible dream of a free, decent existence for all -- can become not only the dream, but the reality, of the entire human family.

But fiscal policy alone will not realize this noble goal. There are other moral and ethical factors which cannot be ignored if we are to succeed.

"Ethics" -- even the word sounds stuffy and remote, doesn't it? Yet, in a period when consumerism is foremost in the public mind here and abroad, and when a new generation is taking a second look at the economic system which many of us take for granted, business ethics take on a new importance.

Let me level with you. I'm worried. I am genuinely concerned that, unless more of the leaders in the American and international business communities start paying more attention to the moral side of capitalism, capitalism may be in very serious trouble.

It's quite true that only a very small percentage of American businessmen engage in corrupt or unethical practices. But the vast majority of honest business must recognize that this tiny minority of spoilers is giving a black eye to our whole free economic system -- and providing the enemies of our system with lethal ammunition.

Now I am well aware that for every business deception and every corporate caper there are plenty of glib excuses. Local customs, the need to cut corners, the belief that "everyone else is doing it" -- I'm sure you've heard them all too.

Well, maybe I'm naive, but I don't buy any of them. I still believe that honesty really <u>is</u> the best business policy. It seems clear to me that corruption -- whether it involves questionable angling for overseas contracts, illegal contributions to office holders, or any other form of graft or payola -- hampers the effective functioning of the marketplace. It leads to higher prices, lessened responsiveness to the consumer and lower quality of goods and services.

It is the exact opposite of the capitalist ideal -- for both the producer and the consumer.

So, when I begin to preach the gospel of business ethics, believe me, I am preaching it for the sake of business as well as ethics! To me, the two are inseparable.

The real question facing American business is not whether it can "afford" stronger ethical standards, but how much longer it can go on without them.

Our entire way of life is held together by voluntary, society-wide bonds of mutual trust and respect. Once those bonds are broken -- once public confidence falls too low, as the polls show it falling today -- the whole social framework collapses. And when that happens, it's all over for everything -- government, democracy, free enterprise and our whole way of life.

Now, let's ask ourselves -- who has been undermining public confidence in the free enterprise system that we all believe in? Of course, some groups have always been opposed to it. We take that for granted. They've always been against it and always will be. But, in 200 years of American history, they've never made much difference by themselves.

Our system really gets into trouble when its friends -- not its enemies -- begin to sell it short.

And today, too many of the people you and I think of as allies and fellow believers have begun to lose faith in their beliefs. They say they believe in competition, but, when government offers a subsidy, their competitive standards go out the window. They say they believe in free enterprise, but what they want most in the world is a secure, guaranteed future.

As Adlai Stevenson once said, "... it is often easier to fight for principles than to live up to them." Too many leaders in American business have been talking a good fight but -- when it comes to the basics -- have abandoned their moral values for quick, easy profit.

Now that may work for a while. But it won't work forever. The day will come when it's all over -- when the same government that has given you security takes away your independence.

There's a very simple but very timely old Roman proverb. It says that "A good reputation is more valuable than money." That's an old idea, but, like so many eternal truths, it has

its modern application. Stanley Marcus, the grand old man of Nieman Marcus, put it this way in his memoirs, "There is never a good sale for Nieman-Marcus, unless it's a good buy for the customer."

Isn't that what capitalism is all about? The age-old struggle within the ranks of free enterprise has not been between capitalists and communists. It has been, and is, between honest businessmen who recognize the ethical, and utilitarian, basis for sustained prosperity and those who lose sight of it in pursuit of a fast buck.

Your firm has always taken the honest, honorable road -- which is also the realistic road. Besides producing good products at good prices, Johnson Wax has also benefited education, the arts and the humanities. You are part of this wonderful human force -- something bigger than individuals and bigger than political theories -- that we call free enterprise. And you have helped to bring a better way of life to millions of Americans, and millions of others around the world. I believe in what you are doing -- in your code of conduct and the way you live up to it.

This great but sometimes confused nation of ours was born in turmoil. Conflict and doubt are nothing new to us. They didn't stop us 200 years ago and they shouldn't stop us now. It is no accident or blind fate that has made America so rich and abundant a land. You can't legislate inventiveness or prosperity, we have no more born geniuses or natural inventors and industrialists than any other country. But we do have a free system in a world where many other countries are not free. And, through it, we encourage the talent that lies within individuals in a way that most other societies have failed to do.

The result has been not just profits for the few, but a better and freer life for the many. Isn't that the acid test -- the bottom line -- of so much of the idealogical argument and speculation going on today? Compare the systems -- ours works. And, in large measure, it works because of people like you, working for companies like yours -- people who believe in the value of a service or product but, even more importantly, believe in the value of a way of life that is uniquely American.

My time in government will soon be over. Some months ago I decided that, regardless of the outcome of the election, I will return to private life in January.

Many things helped me to make up my mind, but the biggest reason of all was my growing conviction that it is the private sector that makes our country what it is.

Don't get me wrong. I don't regret a moment of the time I have spent in government. It's been a very rich and rewarding experience. While I have a few scars to show for some of the stands I have taken, I'm grateful for the chance I had to take those stands and serve my country.

But the more I have seen of government, the more I recognize the limits of what it can do for people -- as opposed to what it can do to them.

Government can change the law, but it cannot change human nature. Government can impede or ease the way for individual initiative. But only the individual himself can create, can change, can brave new horizons.

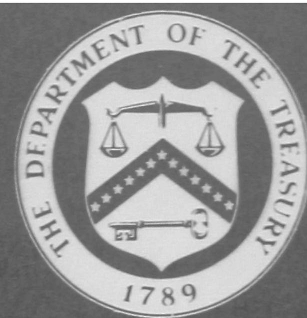
More than anywhere else, that is what happens here in America. Our greatest progress has come through individuals -- not through voter blocs or special interest groups. It happens in company offices like yours, in schools and labs and libraries across this great land of ours where, every day, individuals with a better idea are solving problems and creating new opportunities.

What we call the American experience -- the American story -- is the sum total of those individual contribution. And each of us is a small but important part of it. That, more than any great document or charismatic leader, is what sums up the true meaning and purpose of America. And that is what we must preserve.

Thank you.

# # #

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



IMMEDIATE RELEASE
MONDAY, SEPTEMBER 20,1976

The Treasury Department and the Federal Reserve System today announced arrangements with the Government of Mexico whereby short-term drawings up to $600 million will be available to the Bank of Mexico to counter disorderly exchange market conditions during a transitional period pending the receipt of medium-term financing from the International Monetary Fund. Drawings under these arrangements will have maturities of up to 90 days.

Of this amount, and at the option of the Government of Mexico, the Federal Reserve System will make available amounts repaid in advance of maturity under the existing Federal Reserve System reciprocal currency arrangements up to $180 million.

The remaining amounts will be made available by the Treasury through the Exchange Stabilization Fund under swap arrangements.

# # #

WS-1089

September 20, 1976

MEXICO ISSUES STATEMENT ON
FINANCIAL ARRANGEMENTS WITH
UNITED STATES-IMF

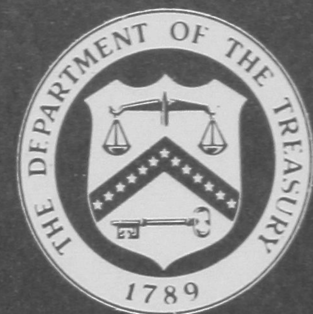
The Mexican Secretary of Finance and the Bank of Mexico have agreed with the International Monetary Fund, the United States Treasury and the Federal Reserve System to obtain substantial resources in support of the program to adjust the balance of payments announced September 1 by President Luis Echeverria.

The Managing Director of the IMF, Mr. Johannes Witteveen, addressed a letter to the Secretary of Finance of Mexico, informing him that he finds adequate and correct the Mexican Government's economic program that was evaluated by an International Monetary Fund Mission in order to deal with the balance of payments problems on the basis of a realistic exchange rate and free convertibility and transferability of the Mexican peso. The Managing Director of the Fund will present and recommend to the Executive Directors of that institution the use of the Fund's resources by Mexico for the objectives above-mentioned for a sum that can reach approximately $1.2 billion.

On its part, the U.S. Treasury and the Federal Reserve System today signed with the Government of Mexico and the Bank of Mexico agreements for a total of $600 million to be repaid upon receipt of the IMF credit tranche drawings in order that the Bank of Mexico can deal with unforeseen and disorderly situations in the exchange market for the Mexican peso. These resources are additional to the Exchange Stabilization Fund swap agreement of $300 million, which is now in force between the above-mentioned institutions.

# # #

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE GERALD L. PARSKY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON CONSUMER PROTECTION AND FINANCE
HOUSE COMMITTEE ON INTERSTATE
AND FOREIGN COMMERCE
TUESDAY, SEPTEMBER 21, 1976, 9:30 a.m.

Mr. Chairman and Members of the Subcommittee:

I appreciate your invitation to present my views on H.R. 14581 which was introduced by the Chairman and is under consideration by the Subcommittee today.

Mr. Chairman, since the first revelations of illicit payments abroad by American corporations, both the Executive Branch and the Congress have been actively involved in determining the scope of the problem and exploring possible solutions to it. As a result, the President has proposed legislation which would supplement the effective work that is already being done in this area by a number of U.S. Government departments and agencies. Although some disagreement remains as to the most effective approach to remedy abuses in this area, all parties share a determination to take effective action.

WS-1090

Illicit payments are ethically abhorrent and undermine the functioning of a competitive free enterprise system. When the major criterion in a buyer's choice of a product is the size of a bribe rather than its price and quality and the reputation of its producers, the fundamental principles on which a market economy is based are put in jeopardy. More specifically, the result has to be higher prices and lower quality of goods and services to the consumer. Moreover, illicit payment practices can seriously distort international trade and investment flows and contribute to a general deterioration in the climate for fair and open international trade and investment. Finally, our bilateral relations with other governments often are adversely affected by revelations of illicit activities by American firms in their countries. In short, there is no question that rigorous action is needed to minimize these damaging practices.

Enforcement of Existing Law

In considering the most effective approach to the improper payments problem, we have kept in mind that there is a substantial basis in existing law for effective action by the U.S. Government. Moreover, the history of recent actions by the Securities and Exchange Commission, the

Internal Revenue Service, the State and Defense Departments, and other departments and agencies is evidence that these laws are being vigorously enforced.

The Internal Revenue Service, as part of its long-standing effort to reveal corporate tax fraud, has attempted to uncover improper deductions of illicit payments for tax purposes. In August of last year, the Service issued instructions to its revenue agents which make it mandatory for them to interview selected corporate officers and key employees regarding the use of "slush funds" and other corporate schemes used to circumvent the tax laws. They also provide for use of the IRS Office of International Operations to examine the books and records of U.S. companies abroad.

Established audit techniques, however, are frequently not sufficient to uncover illegal payments because they are usually handled in "off-books" transactions. Accordingly, these instructions were supplemented earlier this year by new guidelines that require revenue agents to ask eleven specific questions of selected corporate officials and request attestation of the responses by the corporation's accounting firms. Those selected for questioning are present or former officials that might be aware of the possible misuse of funds within their respective corporations.

This latter measure has proven to be an effective audit technique in detecting "slush fund" issues. As of June 30, 1976, the IRS used the eleven-question procedure in almost 2,000 cases (1,982) and identified the "slush fund" issue in 126 cases, many of which also were reported to the SEC. The IRS is proceeding to determine the tax impact of these payments to insure that every corporate taxpayer is properly reporting its taxable income and claiming only those deductions permitted by law. In the process, some of the cases will undoubtedly prove not to have been improper from a tax liability point of view. The IRS is continuing vigorously to pursue this effort.

Pursuant to the International Security Assistance and Arms Export Control Act of 1976, <u>the State Department</u>, in consultation with the Department of Defense, has developed proposed rules on the subject of agent's fee and political contribution reporting in international arms sales. These rules would require reporting on political contributions and fees or commissions paid, or offered or agreed to be paid, in connection with both governmental or commercial sales of defense articles or services abroad. These regulations are proposed to become effective on October 1, 1976.

<u>The Securities and Exchange Commission</u> has also played a particularly active role in this area through its

administration of laws that mandate full and fair disclosure of material facts concerning the business operations of companies which are subject to the reporting requirements of the Federal securities law. You have heard Chairman Hills' report this morning, so I will comment only briefly on SEC activities in this area.

Under these laws, the SEC has taken vigorous action to discover illicit payments and to require public disclosure of material facts relating to them. It has instituted injunctive actions against a number of corporations which have resulted in settlements with the corporate defendants. These defendants have been enjoined from further violating the Federal securities laws and have been required to establish special review committees to conduct full investigations of the irregularities alleged in the Commission's complaint. This has been supplemented by a voluntary disclosure program under which a company which determines that it may have violated existing laws, may discuss the matter with the Commission's staff and commit to subsequent steps to disclose its improper activities and to insure that such practices are not repeated.

In a report it released last May, the Commission provided a detailed analysis of the disclosures U.S. firms had made regarding their questionable or illegal payments, under the voluntary program and as a result of SEC action.

Of the 95 companies that had made such disclosures up to that time, 66, or more than two-thirds, were engaged in manufacturing. Broken down by industry, the two largest groups were drug producers and firms involved in petroleum refining and related services, accounting for 12 enterprises each. Thus, judging from the cases exposed so far, the industries that have been making questionable or illegal payments seem to be widely dispersed, so that there is no basis for pointing a finger at any one industry. Since that report, some 90 additional firms disclosed instances of questionable payments, bringing the current total to about 200 firms.

On the basis of the SEC analysis, as well as other information, it appears that the vast majority of American business is honest and ethical. The evidence of corporate wrongdoing simply does not indicate that illicit foreign payments is a general practice uniformly followed by U.S. businesses operating abroad. Although I do not wish to minimize the seriousness of the problem, the situation can be put in the proper light by noting that the approximately 200 firms come from a total of more than 9,000 that regularly file with the Commission. The same point can be made if we look at this figure in relation to the 1700 U.S. firms with direct investments overseas valued at more than $2 million each that report to the Commerce Department or the 20,000 or so U.S. firms involved in exporting overseas.

Only a relatively few firms appear to have engaged in making questionable payments abroad. The vast bulk of our firms conduct their businesses ethically and completely in accord with the laws of the United States and their host countries. We should not let the activities of a minority of U.S. firms operating abroad cast doubts on the nature and conduct of U.S. business generally.

International Actions

In addition to vigorous enforcement of existing domestic laws, the United States is also taking initiatives in international organizations with the objective of obtaining agreement for cooperative action among governments to deal with this problem. In our view, cooperation among governments is essential if we are to make any real progress in eliminating improper practices from international commerce. U.S. Government agencies are taking effective action to deal with this problem domestically, and we believe that the legislative proposals that the Administration has made will greatly strengthen our capabilities in this regard. But action by the United States alone is not enough. American firms are not the only ones who have engaged in improper practices in international commerce. Moreover, bribery is a

two-way street, and it must be deterred at the receiving or soliciting end as well as at the source.

In March of this year, the United States proposed that a comprehensive international agreement be negotiated to curb corrupt practices in international commerce. Our proposal was welcomed by many governments which share our views about the need for effective international action to deal with this problem. Last month the U.N. Economic and Social Council took action to advance our proposal by establishing an intergovernmental working group on the problem. The group is charged with examining the problem of corrupt practices and elaborating in detail "the scope and contents of an international agreement to prevent and eliminate illicit payments ... in connection with international commercial transactions." The first meeting of this group is scheduled for early next month, and it is expected to report back to the ECOSOC at its session next summer.

Also, in June the member governments of the Organization for Economic Cooperation and Development approved Guidelines for Multinational Enterprises which included a provision on ethical conduct suggested by the United States.

Administration Proposal

In March 1976, as you know, the President established a Cabinet-level Task Force on Questionable Corporate Payments Abroad to conduct a coordinated review of these activities and to recommend any new actions it might consider necessary. The Task Force -- of which Secretary Simon is a member and active participant -- first undertook an exploration of the nature and extent of the illicit payments problem as well as a review of the activities of the U.S. Government agencies that were dealing with it. On the basis of that investigation, we then proceeded to refine and eventually present to the President a number of options for measures to supplement those already underway.

On June 14, 1976, the President announced that he had directed the Task Force to prepare legislation that would require reporting and disclosure of certain payments made in relation to business with foreign governments. The Task Force subsequently drafted legislation, the Foreign Payments Disclosure Act, which the President transmitted to Congress on August 3rd.

The bill requires reporting to the Department of Commerce of certain classes of payments made by U.S. businesses and their foreign subsidiaries and affiliates

in relation to business with foreign governments. It covers a broad range of payments relating to government transactions, as well as political contributions and payments made directly to foreign public officials.

We believe that this measure will contribute in an important way to the restoration of confidence in America's vital business institutions. It represents an effective response to the problem of questionable corporate payments abroad as it will help deter (1) American corporations and their affiliates from making improper payments in international commerce and (2) foreign parties from seeking such payments. Furthermore, it would allow the United States to present an example both to the American people and to foreign countries with regard to our determination to deal effectively with this problem. We anticipate that in doing so it would help to restore the damage that has been done to the good reputation of American business.

The Administration has also announced its support for legislation originally proposed by the Securities and Exchange Commission and since incorporated in Senator Proxmire's bill, S. 3664, and in the legislation before us today, H.R. 15481. Insofar as this legislation would

improve the internal reporting and accountability of registered firms, it should strengthen considerably the Commission's capability to deal with the problem of questionable payments by such firms.

Comments on H.R. 15481

In considering the options for action in this area, the Task Force identified two possible legislative approaches which appeared to offer the greatest potential for enabling us to deal effectively with the questionable payments problem -- a reporting/disclosure requirement and criminal sanctions. After carefully considering the advantages and disadvantages of each, we concluded that the reporting/disclosure option represented the most effective approach. Accordingly, the legislation that the Administration has proposed is based on that concept. By contrast, H.R. 15481 -- the Senate version of which passed last week -- would make certain foreign payments criminal under U.S. law.

Rather than comment on this legislation on a section-by-section basis, I believe it to be more useful for me to discuss with you the general reservations we had about the criminalization approach. In essence, we have the following concerns with this approach:

1) It would involve substantial extraterritorial application of United States' law which could evoke adverse reactions from foreign governments;
2) it would be particularly difficult to enforce; and
3) the criminalization approach solves only part of the foreign payments problem in that it fails to provide an effective sanction against those who solicit bribes abroad.

1. Extraterritorial Application: Any attempt to apply a U.S. criminal statute to acts consummated abroad would involve an extraterritorial application of U.S. law. While there are no absolute legal prohibitions on such extraterritorial application, attempts by the U.S. to apply our anti-trust and export control laws in a similar way have created substantial problems in the past. The application of our law abroad often conflicts with foreign laws or practices and is looked upon as an unwarranted intrusion into the sovereignty of other states. The history of the extraterritorial application of our laws shows all too clearly that foreign nations may react strongly when we attempt to enforce our laws

with respect to acts consummated in their territories. It can be expected that similar reactions would be forthcoming in the present instance.

2. Enforceability: In addition, the prosecution of offenses would depend upon our access to information, witnesses, and other evidence which may be beyond the reach of U.S. judicial processes. In a criminal bribery action, the intent of the payor, and possibly the payee, would have to be proved. Proving intent is usually difficult and would be particularly difficult where the payee resides outside of the United States and is not a U.S. citizen. Furthermore, the probable sensitivity of other nations to possible extraterritorial application of U.S. criminal sanctions may reduce their willingness to cooperate in any prosecutions.

3. Coverage: This approach would enable us to solve only half the problem insofar as it involves action solely against those who make questionable payments. As I indicated earlier, we need to get at the receiving or soliciting end of the problem as well. The criminalization approach does not do this.

For these reasons, Mr. Chairman, we believe that the Administration bill, S. 3741, offers a more effective means of dealing with the questionable payments problem. It does not involve the potential difficulties that the bill before you today does.

Conclusion

In closing, I would add that, while we in the Government condemn questionable payments and have been actively searching for solutions to deter them, we remain firm in the belief that the private sector has a basic responsibility to come to grips with this problem. It is a fact, unfortunate but true, that some corporations have engaged in questionable payments. However, their actions color the views of the public and possibly foreign governments about the vast majority of the members of the American business community who are honest businessmen and would never engage in such acts. Thus, American business at large is denied the good reputation it deserves because of the improper activities of only a few of its members.

Given this situation, not only is it a moral imperative for the majority of American businessmen to act to

try to combat improper activities by those in their midst, but also it is in their practical interest to do so. One obvious solution is for them to make sure that their own houses are in order, by instructing their employees or their representatives overseas to guard against engaging in improper practices. But this is not enough. We believe -- and Secretary Simon and I have emphasized this repeatedly over the past year -- that it is incumbent upon all businessmen to speak out for good ethics in business and for the business community as a whole to take effective action to govern itself.

In this respect, the International Chamber of Commerce has provided a good example in establishing its Commission on Unethical Practices -- a distinguished panel of leaders in international business -- to develop guidelines for promoting ethical and proper conduct in international commercial affairs. We certainly look forward to receiving its findings and recommendations. Here in this country, the U.S. Chamber of Commerce has issued a forthright statement condemning improper payments and making the case for ethical business practices. Finally, a number of individual firms have taken action internally to insure that their business affairs are conducted in accordance with sound and ethical precepts

and publicly stated their determination to adhere to such standards.

Such action is a clear indication that individual enterprises and business organizations alike recognize that they have an important responsibility. There is a need to take further action that will convince the public both here at home and abroad that American business is honest. The stakes are high and the consequences of inaction are serious. I do not believe that it would be an overstatement to say, in fact, that not only their individual interests but also the vitality of our free enterprise system are at stake.

he Department of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR IMMEDIATE RELEASE September 20, 1976

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,100 million of 13-week Treasury bills and for $3,100 million of 26-week Treasury bills, both series to be issued on September 23, 1976 were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing December 23, 1976			:	26-week bills maturing March 24, 1977		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	98.736	5.000%	5.13%	:	97.364 a/	5.214%	5.43%
Low	98.728	5.032%	5.17%	:	97.348	5.246%	5.46%
Average	98.729	5.028%	5.16%	:	97.353	5.236%	5.45%

a/ Excepting 1 tender of $3,500,000

Tenders at the low price for the 13-week bills were allotted 94%.
Tenders at the low price for the 26-week bills were allotted 38%.

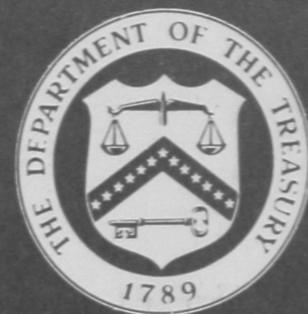
TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	:	Received	Accepted
Boston	$ 31,530,000	$ 16,530,000	:	$ 26,450,000	$ 11,450,000
New York	3,700,235,000	1,870,950,000	:	4,453,050,000	2,802,050,000
Philadelphia	21,315,000	20,765,000	:	8,800,000	8,800,000
Cleveland	31,435,000	30,310,000	:	63,940,000	13,940,000
Richmond	20,995,000	15,845,000	:	17,975,000	7,475,000
Atlanta	23,090,000	19,320,000	:	15,215,000	15,030,000
Chicago	256,420,000	31,475,000	:	298,915,000	103,855,000
St. Louis	54,135,000	27,720,000	:	42,545,000	20,545,000
Minneapolis	24,855,000	6,855,000	:	37,310,000	21,810,000
Kansas City	26,575,000	23,050,000	:	18,145,000	18,145,000
Dallas	29,045,000	16,045,000	:	25,150,000	14,910,000
San Francisco	183,215,000	22,190,000	:	222,265,000	64,165,000
TOTALS	$4,402,845,000	$2,101,055,000 b/		$5,229,760,000	$3,102,175,000 c/

b/ Includes $325,175,000 noncompetitive tenders from the public.
c/ Includes $162,675,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

WS-1091

he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR RELEASE AT 4:00 P.M. September 21, 1976

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 $5,700 million , or thereabouts, to be issued September 30, 1976, as follows:

91-day bills (to maturity date) in the amount of $2,300 million, or thereabouts, representing an additional amount of bills dated July 1, 1976, and to mature December 30, 1976 (CUSIP No. 912793 D7 8), originally issued in the amount of $3,402 million, the additional and original bills to be freely interchangeable.

182-day bills, for $3,400 million, or thereabouts, to be dated September 30, 1976 and to mature March 31, 1977 (CUSIP No. 912793 F4 3).

The bills will be issued for cash and in exchange for Treasury bills maturing September 30, 1976, outstanding in the amount of $5,703 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,778 million. 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, September 27, 1976. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government

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

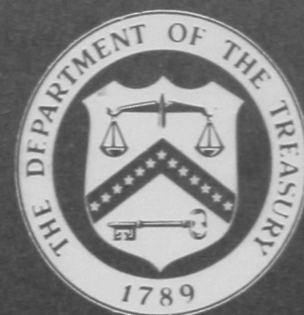
Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $ 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 September 30, 1976, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 30, 1976. 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.

oOo

he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE September 21, 1976

RESULTS OF AUCTION OF 2-YEAR TREASURY NOTES

The Treasury has accepted $2,503 million of $5,224 million of tenders received from the public for the 2-year notes, Series R-1978, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	6.27% 1/
Highest yield	6.32%
Average yield	6.30%

The interest rate on the notes will be 6-1/4%. At the 6-1/4% rate, the above yields result in the following prices:

Low-yield price	99.963
High-yield price	99.870
Average-yield price	99.907

The $2,503 million of accepted tenders includes 33% of amount of notes bid for at the highest yield and $ 407 million of noncompetitive tenders accepted at the average yield.

In addition, $681 million of tenders were accepted at the average-yield price from Government Accounts and Federal Reserve Banks for their own account in exchange for notes maturing September 30, 1976, ($326 million) and from Federal Reserve Banks as agents for foreign and international monetary authorities for new cash ($355 million).

1/ Excepting 1 tender of $10,000

WS-1093

STATEMENT OF JOHN WEBSTER
SPECIAL ASSISTANT TO THE SECRETARY OF TREASURY
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT
OF THE
HOUSE COMMITTEE ON WAYS & MEANS
SEPTEMBER 21, 1976

Mr. Chairman and Members of this Distinguished Subcommittee:

I am pleased to have the opportunity to meet with you regarding the implementation of the Treasury Department's Consumer Representation Plan. As you know, I have just assumed the position of Special Assistant to the Secretary for Consumer Affairs and may not be able to deal with all of the detailed aspects of the plan's development and last year's activities. Fortunately, Mr. David Lefeve, my predecessor, has agreed to join me today and we hope that together we can give you an adequate feel for the effectiveness of consumer representation at Treasury.

Let me explain at the outset that I am in this job as a Presidential Interchange Executive on leave from IBM. The Interchange program arranges for managers from both the public and private sectors to work in the opposite sector for a year to gain mutual understanding and appreciation for one another's areas. Upon selection to the program, we participate in a series of interviews designed to match our skills and interests with the needs of participating departments and agencies.

In view of Secretary Simon's intention to return to private life at the end of the calendar year, Treasury decided to again seek an Interchange Executive to fill the Special Assistant's position.

This has the advantage of allowing the new Secretary complete freedom in choosing a full-time Special Assistant who would not be inconvenienced by the transition.

While Mr. Lefeve and I will be happy to answer any questions you may have, I would like to briefly share some of my early thoughts about consumer representation at Treasury, as well as some of my immediate priorities.

First, it is clear from my short time on the job, that Treasury decisions are guided by a management philosophy which stressses the importance of free markets and intense competition both domestically and internationally.

Unfettered by responsibility for "special interests", Treasury is free to represent the economic public interests, which provides a supportive environment for beginning my year of consumer representation.

I have had the opportunity to review Treasury's existing consumer plans and in my opinion it is both workable and strong. It avoids rhetorical claims about the multitude of existing consumer programs, and instead zeroes in squarely on the need to plug the consumer view into the decision-making process. It is workable because it places responsibility where it must be--in the hands of the Secretary and his bureau and office heads; and it backs up the responsibility with mechanisms for enhancing their awareness of consumer interests. Those mechanisms are the Special Assistant to the Secretary for Consumer Affairs and Consumer Coordinators located in each bureau and office.

It is a strong plan because it has the support and full commitment of the Secretary. The Special Assistant reports directly to the Secretary and his Deputy and attends his daily staff meeting of senior Treasury officials. Perhaps the greatest evidence of the Secretary's commitment to consumer representation is his support of the Special Assistant's right to oppose him publicly if circumstances warrant such action.

Although I am unable to anticipate all of the specific issues which will require my attention during the year, I can spell out a few of my immediate priorities. They include:

A detailed review of the current plan with all Treasury consumer coordinators to determine its suitability as an operational guide for the entire department.

Individual meetings with all top level Treasury officials to review pending actions and plans that may impact the consumer.

A review of the current procedures for holding public hearings with special emphasis on expanding the public's opportunity to "meet with Treasury".

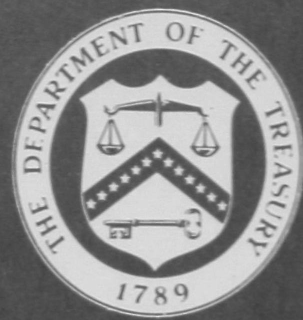
Establishment of contact with key elements of the Public Interest community to encourage their input on Treasury-related consumer issues.

A thorough review of existing advisory committees to determine the adequacy of consumer representation.

I look forward to representing the consumer interests at Treasury and am convinced that the basic ingredients for a successful plan are present. They include top-level commitment, top-level accountability, and a vehicle for top-level awareness. The task before me now is one of picking up where Mr. Lefeve left off--by operationalizing and fine tuning the plan in preparation for turnover to a full-time consumer representative.

I will be happy to answer your questions at this time.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE

STATEMENT OF DAVID MOSSO
FISCAL ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON
DOMESTIC MONETARY POLICY OF THE
HOUSE COMMITTEE ON BANKING, CURRENCY AND HOUSING
WEDNESDAY, SEPTEMBER 22, 1976, 9:15 A.M.

Mr. Chairman and Members of the Committee:

I am pleased to appear in support of H.R. 14848, which would extend until October 31, 1978, the existing authority of the Federal Reserve Banks to purchase directly from the Treasury up to $5 billion of public debt obligations. In the absence of Congressional action, this direct-purchase authority will expire at the end of October 1976.

The purpose of the direct-purchase authority is to contribute to the efficient management of the public finances. It was first granted in its present form in 1942, and it has been renewed for temporary periods on nineteen separate occasions. The authority lapsed on three occasions in recent years--from July 1 until August 14, 1973; from November 1, 1973 until October 28, 1974; and from November 1 to November 12, 1975. In some cases, these lapses traced to unrelated and controversial amendments which had been attached to the borrowing authority bill. The authority itself has never been controversial.

Since 1942, the authority has been used on only a limited number of occasions. However, its value does not rest on the frequency or extensiveness of its use, but its availability as a backstop for Treasury cash

and debt operations, permitting more economical management of our cash position and assuring our ability to provide needed funds almost instantaneously in the event of any kind of emergency. During the periods when the authority was not available, the Treasury had to maintain higher cash balances, and a higher public debt, than would otherwise have been the case.

The direct-purchase authority is available to provide an immediate source of funds for temporary financing in the event of a national emergency on a broader scale. During emergencies, it is possible that financial markets would be disrupted at a time when large amounts of cash had to be raised to maintain Government functions. Consequently, the direct-purchase authority has for many years been a key element in all of the Treasury's financial planning for a national emergency. This is a major reason why the authority should be continued for at least $5 billion, even though $1.3 billion is the largest amount that has ever actually been used in the past.

The Treasury Department views the authority as a temporary accommodation to be used only under unusual circumstances. In that connection, it is important to emphasize that any direct recourse by the Treasury to Federal Reserve credit under this authority is subject to the discretion and control of the Federal Reserve itself. With that safeguard, and in view of the fact that the authority has never been abused, the Department recommended a five-year extension, to October 31, 1981. As introduced, however, H.R. 14848

provides for a two-year extension--to October 31, 1978, which we understand reflects the position of your Committee. The Department would prefer the longer authority and believes that it can be justified in terms of its limited use, but in view of the Committee's position we do not object to this change in the Treasury draft bill.

The accompanying table provides details on the instances of actual use. The borrowings are promptly shown in the Daily Treasury Statement and the weekly Federal Reserve Statement, assuring the widespread publicity that is the best possible deterrent to abuse. The Federal Reserve also includes the information in its Annual Report to the Congress. And, of course, this borrowing, like other Treasury borrowing, is subject to the debt limit.

As an essential backstop to our cash management operations and as an insurance policy against financial emergency, this authority should not be allowed to expire.

That concludes my statement, Mr. Chairman. I will be glad to respond to any questions.

oOo

Attachment

TABLE I

DIRECT BORROWING FROM FEDERAL RESERVE BANKS
1942 TO DATE

Calendar Year	Days Used	Maximum Amount At Any Time (Millions)	Number of Separate Times Used	Maximum Number Of Days Used At Any One Time
1942	19	$ 422	4	6
1943	48	1,302	4	28
1944	none	--	-	-
1945	9	484	2	7
1946	none	--	-	-
1947	none	--	-	-
1948	none	--	-	-
1949	2	220	1	2
1950	2	180	2	1
1951	4	320	2	2
1952	30	811	4	9
1953	29	1,172	2	20
1954	15	424	2	13
1955	none	--	-	-
1956	none	--	-	-
1957	none	--	-	-
1958	2	207	1	2
1959	none	--	-	-
1960	none	--	-	-
1961	none	--	-	-
1962	none	--	-	-
1963	none	--	-	-
1964	none	--	-	-
1965	none	--	-	-
1966	3	169	1	3
1967	7	153	3	3
1968	8	596	3	6
1969	21	1,102	2	12
1970	none	--	-	-
1971	9	610	1	7
1972	1	38	1	1
1973	10	485	3	6
1974	1	131	1	1
1975	16	1,042	4	7
1976	none	--	-	-

Office of the
Fiscal Assistant Secretary

September 20, 1976

GOLD MARKET REPORT

TO THE

UNITED STATES DEPARTMENT OF THE TREASURY

---

by

Thomas W. Wolfe

Consultant

TREASURY DEPARTMENT
September 1976

The attached report on the gold market was prepared for the Treasury by Thomas W. Wolfe.

This study was undertaken by Mr. Wolfe, under contract with the Treasury, to provide basic information on the functioning of the world's major gold markets, including a review of trends in the production and utilization of gold.

Before his retirement from public service, Mr. Wolfe was Director of the Office of Domestic Gold and Silver Operations, which administered the Gold Regulations of the Treasury. These Regulations were terminated, under law, on December 31, 1974.

Mr. Wolfe's report contains the results of his independent study and is not a report of the Treasury reflecting Treasury Department views or policy.

Gerald L. Parsky
Assistant Secretary for International Affairs

Report on the Production, Marketing and Use of Gold, Including Recommendations on the Disposition of U.S. Gold Stock

by

Thomas W. Wolfe
Consultant

I. The Context

II. The Production and Use of Gold

III. The Gold Supply - Demand Outlook

IV. The Gold Market

V. Government Gold Stocks

VI. Summary of Conclusions and Recommendations

that is not ultimately subject to market determination.

The bulk of the current gold supply is produced by private entrepreneurs who are concerned with return on capital investment, wage rates and union contracts, market prices, interest rates -- the same problems that concern businessmen producing other basic commodities.

THE PRODUCTION, MARKETING AND USE OF GOLD

The Context

A rational analysis and evaluation of the functioning world gold market and the supply-demand-price outlook for gold should begin from four basic assumptions: (1) the price of gold must ultimately be determined by the cost of production, including allowance for return on capital, and the demand curve of industrial consumers; (2) the entire stock of gold, above and below ground, is in process of ultimate conversion into end products whose economic value exceeds that of the raw material; (3) all of the existing above-ground stock of gold bullion -- including government reserves -- is, by definition, held for speculative motives, apart from a minimum level of industrial inventories and the small portion of government stocks that might be justified as a strategic industrial reserve; (4) rational holders of gold will sell or not sell at any given time depending on the relationship between the present price, the interest cost, and the expected range of future prices.

The above assumptions are obvious to some, absurd to others, but are simply truisms that apply to all world mineral resources that exist in finite quantity. Gold will only be produced -- whether by state-owned or private enterprise -- if there is an expectation that the selling price will exceed production costs in real terms. This has been true in the past, is true now, and will continue to be true in the future. There is no intangible or mystical value of gold or any other commodity that is not ultimately subject to market determination.

The bulk of the current gold supply is produced by private entrepreneurs who are concerned with return on capital investment, wage rates and union contracts, market prices, interest rates -- the same problems that concern businessmen producing other basic commodities.

On the demand side industrial buyers of gold -- the mainstay of the market -- are concerned with price, cost of possible substitutes, and market demand for the products they sell. There is, of course, some price speculation by those holding a temporary interest in gold on futures exchanges and elsewhere, just as there is on other commodities. In short, in its basic market aspects the price of gold is determined in the same way as the price of other commodities.

The great increase in the volume of gold traded through private markets in recent years and the institutional structure of the market that has evolved reflects a changed situation. Only a decade ago practically all world gold movements were directly or indirectly under the control of the monetary authorities of a relatively few countries. No private gold bullion market of any consequence existed anywhere. The major world central banks had a virtual monopoly on the world gold trade including sales for industrial use. In recent years all that has changed. The central banks no longer play a significant direct role in the world gold market. Virtually all gold production moves directly to end use or to non-government temporary holders through the structure of the private market. In the changed order of things governments who hold gold in the form of "official" reserves are both conceptually, and as a practical matter, in the same boat with private gold holders. The two-tier concept has passed into history and all producers, holders, and users of gold are now, willy-nilly, part of the market process and subject to its constraints and decisions.

One obvious conclusion immediately evident from the basic change in the international structure of gold trading is that the price will be that required to "clear" the market, to balance supply and demand over the long run. The price of gold -- like other world-traded commodities -- can be extremely volatile over the short run depending on various temporary factors. But in a free market over the longer run (and in the long run all markets are "free") the price of gold will be determined by the profit to producers relative to alternative uses of capital on the

one hand, and market demand for industrial use[1] on the other. No rational producer -- public or private -- will mine gold if the required capital resources can more profitably be employed elsewhere. No rational investor or speculator (the terms are interchangeable) will hold gold unless the expected monetary return in real terms is at least equal to alternative investment choices. And no rational commercial user will buy gold unless it can be converted into a product which can be sold at a profit in a competitive market. Taken together these three fundamental factors mean that over time the price of gold will be determined by the cost of production, including allowance for return on capital, and the demand curve of consumers.

---

(1) The definition of industrial use in this report is a comprehensive one including all purchases of bar gold for resale in other than bullion or bullion coin form.

The Production and Use of Gold 1850-1975

An historical overview

The production of gold in large quantities is a relatively recent historical development. About 80 per cent of all gold production has been mined since 1900 and nearly half of the total in the past 30 years. In the entire history of gold production and use, three dates are particularly significant: 1849 when the California discovery began a long era of large-scale gold production; 1933 when the coinage of gold in quantity ended and gold ceased to be a circulating monetary instrument; and 1968 when the two-tier market effectively ended the international gold standard and made private gold trading at flexible prices first possible.

The great expansion of world gold production in the latter half of the 19th century created a surplus sufficiently large for practical use as coin in the world's circulating money supply. However, the rapid rise in commercial needs during and after World War I outpaced the available new supply of gold and compelled the phasing out of gold as a circulating monetary instrument. The halting of open convertibility by the United States in 1933 marked the practical end of the monetary gold era. No gold coins were minted anywhere for general circulation after that year.

Although the surplus supply of gold was no longer sufficient for general monetary use, the limited amounts in official stocks were considered adequate for use as reserves in settling international balances. The international gold exchange standard was formalized in the Bretton Woods Agreement at the end of World War II. Under this arrangement all currencies were in theory convertible into all others at relatively fixed exchange rates with gold as the common denominator for measurement. For the system to function, at least one country had to serve

as a link between other currencies and gold, with unlimited buy-sell convertibility into gold at a fixed price. As the wealthiest country at the time, the United States volunteered to take on the job. The arrangement continued through the 1960's, when a diminishing gold reserve finally forced the United States in 1971 to resign from its kingpin role. Since no other country was willing or able to take on the job, the international gold exchange standard came to an end.

1850-1933

Until well into the 19th century gold was an exotic mineral rare enough to sustain a consistently high market value, although its practical use was limited to decorative purposes. Gold was not available in sufficient quantity or with enough regularity of supply to function as the basis of any organized monetary system. From the beginning of recorded history until 1850, total world gold production is estimated at less than 150 million ounces[2]. In the United States less than 2 million ounces of gold was produced during the entire period from 1792 until 1849[2]. Of this limited gold production only a minor portion was retained in unencumbered government reserves, practically all of it was held by individuals in the form of jewelry or coins.

In the middle of the 19th century the gold supply-demand situation suddenly and drastically changed. With the successive discovery of new fields in California, Australia, Alaska and South Africa, the production of gold accelerated rapidly. From 1850 until 1933 world gold production totaled over 900 million ounces, a third of which was produced in the United States. The great bulk of this gold production was converted into coin, mainly by Great Britain and the United States. Nearly 350 million ounces was minted into British sovereigns and some

---

[2]Annual Reports of the Director of the U.S. Mint.

220 million ounces into U.S. coins. The minting of gold coins by other countries is estimated at about 150 million ounces.

For most of this period the rising supply of gold was sufficient to keep pace with an expanding world economy. Although the relationship between gold supply and transaction needs was largely coincidental, it gave impetus to establishing gold coinage as the basis for most of the world monetary system. During and after World War I, world economic activity accelerated rapidly and it became evident that the new supply of gold at a fixed price was no longer consistent with money supply needs. By 1933 the coinage of gold had ended and gold ceased to be a significant part of the world's circulating money supply.

Considering the supply-demand status over the entire period from 1850, when large-scale gold production began, to 1933 when its general monetary function effectively ended, one important factor seems obvious. The price of gold could not possibly have been maintained at the established level over this long period in the absence of strong and consistent government support -- mainly by Great Britain and the United States, the two countries which acquired and converted into coin most of the world's gold production until 1933. The open coinage price was at a sufficient premium over production costs to encourage an expansion of gold output while discouraging more widespread commercial use.

The long period of government price-fixing created an illusion -- which to some extent still persists -- that the price of gold is inherently stable and immune from market cost factors that affect all other commodities. If the policy of unlimited government purchases at a price well above production costs had not been adopted, gold after 1850 would probably have behaved much like silver, with new production sources rather quickly dropping the price to marginal production cost levels.

1934-1967

For over a century prior to 1933 a few world powers -- mainly Great Britain and the United States -- pegged the price of gold at an arbitrary fixed level substantially above production costs through open and unlimited coinage of practically all gold production. For most of this period general price indexes were rising relative to gold so that the profits of gold producers, while substantial, were gradually narrowing. By the 1920's the profit squeeze was taking effect and world gold production was showing signs of levelling out. In 1929 commodity prices began a deep slide. Gold alone had government price support and gold producer profits again widened. By early 1933 the real price of gold was close to its historic high, more than 50 per cent above the 1929 level.

In a series of actions beginning in March 1933 and ending in January 1934, the United States Government, for domestic policy reasons, raised the already high gold price support level by an additional 60 per cent in current dollars. The hope was that the higher gold price would stimulate a comparable rise in the depressed level of other commodity prices and an expansion in domestic production.

Although the arbitrary increase in the support price of gold had little effect on economic activity in general, it had a substantial and prolonged impact on the production and industrial use of gold for the next three decades. The 1934 gold price, in real terms nearly 2 1/2 times the level of the 1920's, triggered an expansion in gold production which carried into the 1960's.

World gold production rose from 25 million ounces in 1933 to nearly 40 million ounces in 1939. Restrictions on production during World War II together with rising costs curtailed gold output which by 1945 had dropped to just over 26 million ounces. In the 1950's another surge in gold production began which reached its peak in 1970 when world output exceeded 47 million ounces.

The post-war rise in gold production was almost entirely concentrated in South Africa. From 1947 to 1970 South African annual gold output increased nearly three-fold from 11 million to over 32 million ounces. The large-scale development of new mining sources in South Africa during a time of rising gold production costs and a fixed market price was in large measure due to a plentiful supply of relatively cheap labor. In other parts of the world gold production generally declined.

To understand the impact of the price of gold on mining production and industrial use from 1934 to 1967 one needs to examine not the unchanging dollar price, but the price in real terms, in constant dollars. It is the real price of gold that determines the profits to investors, the return to producers, and the relative profitability of gold for industrial use compared with possible substitutes.

From 1934 through 1967 the market price of gold was pegged at $35 per ounce in current dollars, apart from a few minor and temporary deviations. But the price of gold in real terms behaved very differently. In 1934 the constant dollar gold price was more than double the 1929 level and far above the index of related metals. In addition to stimulating a long expansion of gold production, the high support gold price reduced the net industrial use of gold almost to zero. From 1934 until 1940 industrial gold purchases in the United States were actually negative, that is new bullion purchases were less than the return from old scrap material.

From the high point in 1934, the real price of gold began a steady decline which was not halted for some 35 years. By early 1970 the price of gold in constant dollars had declined about 75 per cent from 1934.

The decline in the real gold price was reflected in the trend of private demand. During the 1930's and 1940's the cumulative total of government gold purchases, mainly by the United States, to support the

price was nearly equal to total world production. Industrial demand and speculative private investment were negligible factors.

During the 1950's the proportion of gold production acquired by governments was gradually reduced and industrial demand rose steadily until a temporary balance between gold production and private demand was reached by the mid-1960's. The rise in industrial gold purchases during this period was spectacular, increasing nearly three-fold between 1950 and 1965. By the late 1960's industrial demand for gold was close to 40 million ounces a year, approximately equal to total mine production in the non-communist world. As a result, the historic government floor price support for gold that had resulted in a long build-up of official stocks turned into a price ceiling -- a development that was inevitable at some point in time. Gold was no longer profitable to produce but was increasingly attractive for industrial use. The traditional government subsidy to gold producers had become a subsidy to industrial users.

By 1967, a continued rise in the general price level reinforced the general belief that a fixed price for one commodity such as gold could not long be maintained. Speculative buying increased and for the first time in history large government gold sales were required to hold the price at a level considered appropriate for the international exchange standard but which had become totally inconsistent with the economic realities of gold production costs and industrial demand.

1968-1975

March 17, 1968 is perhaps the key date in the relatively brief history of gold as a significant part of the world monetary system. On that day in Washington the monetary officials of seven major industrial powers issued a communique announcing a halt to their efforts to peg the price of gold by purchases and/or sales through the London gold pool. Henceforth, the price of gold for private trading would be free

to seek its own level as determined by supply and demand in the world market. Although official dollar-gold convertibility by the United States continued until August 1971 and some minor de jure details still remain to be cleared up, March 17, 1968 marked the de facto end of the international gold exchange standard and the beginning of the first free private gold market in modern history.

The end of official efforts to peg the market price of gold was in retrospect inevitable. The price of gold like other commodities must ultimately be determined by the interplay between production costs and its market value in terms of economic use. The high government support price of gold, well above production costs until the 1950's, masked this truism and created the illusion that the price of gold was distinct from all other commodities and could be indefinitely determined by monetary authorities entirely according to monetary considerations. In fact, the high official support price for gold required the governments of the world, for over a century, to buy and hold the great bulk of total gold production. During this period the official price of gold in effect constituted a subsidy for producers and a penalty for industrial users.

By the 1950's and more clearly in the 1960's as general prices and production costs continued upward, this situation was gradually reversed and the traditional government support price for gold became a price ceiling. Gold producers were now the recipients of the government penalty and industrial buyers and consumers benefited from the subsidy. A substantial portion of world gold production could be maintained only by government financial assistance. At the same time, the arbitrary price ceiling and the declining price of gold in real terms resulted in a rapid rise in industrial gold purchases from just over 13 million ounces in 1955 to 43 million ounces in 1970.

As would be expected, the growing imbalance between the basic supply and demand for gold at the arbitrary ceiling price put increasing

authorities of the world could work out a more practical and lasting solution to the gold problem.

The immediate effect of the end of official intervention was to permit gold to be traded in the world market under essentially the same institutional practices and procedures in effect for similar commodities such as silver or platinum. The development of the new gold market will be discussed in more detail later but at this point it is sufficient to note that it had its beginning on March 17, 1968.

Contrary to general expectations, the ending of official intervention in the private market was followed by a three-year period in which the price of gold remained relatively stable. In March and April 1968 the gold price rose rather quickly to the $40 range and in general varied between $35 and $40 until the end of 1971. During this period several major factors which tend to raise or lower the gold price were more or less in balance. The major depressants on the price were the large overhang of speculative holdings acquired in 1967 and early 1968; continued large gold production, and a moderate world recession in 1969 and 1970. These down factors were largely offset by strong industrial gold demand, and a virtual halt to Soviet sales throughout this period.

In 1972 the four-year period of relative price stability in the world gold market came to an end. The basic supply, demand and environmental factors which were conduciye to a flat price trend since early 1968 had substantially changed. Gold production which had peaked in 1970, began a long decline, influenced by the prolonged depression in the real gold price as well as depleted below-ground reserves. By 1972 gold production had declined by nearly 15 per cent with even larger reductions in sight for the years ahead. At the same time low gold prices relative to other commodities stimulated continued strength in industrial demand which was now in excess of gold production. And finally, the large overhang of speculative holdings, acquired prior to March 1968 had in large measure been worked off.

About this time most of the world economies entered a period of economic expansion and strong price inflation. The prices of virtually all world-traded commodities rose sharply to unprecedented levels and gold was no exception. The gold price rose to the $65 range in mid-1972, to $120 in 1973 and finally topped $170 in early 1974. But it should be emphasized that while the changing gold price was loosely associated with various monetary influences during this period, its over-all rise was not appreciably out of line with changing prices in related commodities. All commodity prices rose and gold was part of the general picture.

However, the behavior of the gold price through most of 1974 cannot be attributed to either basic supply-demand factors or general commodity price inflation. While the trend of gold production continued downward, the rate of decline was not greater than in earlier years. Moreover, industrial gold consumption, which remained strong through 1972, dropped sharply in 1973 and 1974 due both to high prices and the inventory risks created by wide swings in the price. The electronics industry in particular explored ways to reduce gold use and substitute cheaper metals wherever possible. And finally for most of the world economy 1974 was a time of recession with a shortage of demand rather than supply the major problem.

Despite the general economic slowdown and evidence of weakness in most commodity prices, the price of gold surged to a new high, briefly topping $190 at the end of 1974. In retrospect it seems evident that the inflated gold price in the latter half of 1974, counter to the trend in other commodity prices, was largely if not entirely due to a single cause, i.e., a widespread miscalculation over the expected impact of the lifting of restraints on gold ownership in the United States. In anticipation of strong American investor demand, gold bullion inventories were increased and speculative buying accelerated abroad. In January 1975 the expected demand did not materialize and the price of gold dropped sharply. A key factor generally overlooked by participants

in the 1974 speculative surge was the de facto ending of U.S. gold ownership restraints in December 1973 when the purchase of bullion coins was first authorized. In 1974 Americans acquired over 3 million ounces of gold in coin form and this proved to be a fairly accurate measure of the extent of non-industrial gold demand.

In general, 1975 was a year of correctional adjustment in the gold supply-demand situation. The long decline in world gold production continued but at a slower rate. Encouraged by improved economic conditions and lower gold prices, industrial demand showed a substantial increase, particularly after mid-year. However, the price of gold continued to ease and did not react to a temporary surge in other commodity prices in June and July.

The continued gold price weakness in the face of more bullish conditions can be attributed to a remaining overhang of speculative holdings, the U.S. Treasury sale at mid-year, and the anticipation of IMF and possibly other official sales in 1976 and beyond.

Gold Production in the Soviet Union

Under a widely accepted convention of statistical presentation, gold production in the Soviet Union is customarily excluded from or shown separate from production elsewhere. This custom is mainly a matter of expedience. Soviet data on gold production and stocks are not readily available and estimates of net sales in the world market are considered to be somewhat more reliable. The net Soviet sale figure is added to gold production in the rest of the world to arrive at the total market supply. Net gold purchases or sales by other governments may be a component of supply or demand depending on how the plus or minus sign is applied.

Actually there is no sound economic reason for according Soviet gold production and sales special treatment. Gold producers in the Soviet Union are subject to the same capital needs and cost factors as producers elsewhere. The myth that Soviet producers do not need to turn a profit is just that -- a myth. It is simply a matter of definition. Soviet gold output must ultimately be sold in a competitive market. If the resources needed to produce it can more profitably (with greater economic return) be used in other ways they will be.

As far as can be determined the bulk of Soviet gold production over the past 30 years has been sold in the world market. Apart from somewhat greater irregularity, Soviet gold marketing concepts and procedures are not appreciably different from other major producers. All producing entrepreneurs -- government or private, large or small -- have occasional urges to outguess the market by building speculative stocks, invariably with adverse results. Fortunately most private gold producers have a limited capacity to do this, so the potential losses are minor.

Estimates vary but it is generally believed that Soviet gold production

has been rising and is now probably close to 10 million ounces a year. Soviet gold stocks are thought to be in the neighborhood of 100 million ounces. Over the past five years Soviet gold sales are estimated to have averaged close to 6 million ounces a year.

The Soviet Union is on the average, a high-cost gold producer -- largely because of adverse climate conditions. Over the next few years Soviet gold production is expected to show a further rise, with emphasis on investment in more temperate climate areas. Like other producers, they will be assessing trends in supply, demand and price, and their conclusions will have an impact on the future trend of Soviet gold production.

But whether or not Soviet gold output rises it seems reasonable to assume, given the over-all economic situation, that their annual gold sales over the next five years will be similar to those over the last five years, i.e., about 6 million ounces.

The Gold Supply-Demand Outlook

Overview

In 1976 there are clear indications that the adjustment period necessary to correct the gold supply-demand imbalances of 1973-1974 is coming to an end. Industrial gold demand, which had dropped sharply because of high and uncertain prices, recovered strongly in 1975 and is doing even better in 1976. Industrial buying, at over 30 million ounces a year and rising, is now probably in approximate balance with world gold production outside the Soviet Union. With economic recovery accelerating in most of the world, it seems probable that industrial gold demand over the next five years will substantially exceed current gold production.

World gold production outside the Soviet Union has steadily declined from about 41 million ounces in the peak year of 1970 to an estimated 30 million ounces in 1976. The reduction in the market supply in the form of gold bullion bars has been even greater because of the substantial diversion of gold production into coins in recent years. The production of gold coins, which was negligible prior to 1973, now averages from 7 to 9 million ounces a year. Annual non-Soviet gold production available for industrial use is, therefore, probably less than 25 million ounces, well below the most conservative estimates of industrial demand. The prospective supply deficiency at the present price level provides room for a reasonable volume of gold sales from the Soviet Union, the IMF, and other government sources in 1976 and beyond with no resulting decline in the real price over the long run.

Production

World gold production rose steadily after World War II, leveled out in the late 1960's, and since 1970 has shown a substantial decline.

World Gold Production
(Millions of Ounces)

	South Africa	Soviet Union	Other Countries	Total
1950	11.7	3.6	13.0	28.3
1955	14.6	3.5	12.3	30.4
1960	21.4	4.1	12.3	37.8
1965	30.6	5.0	10.6	56.2
1970	32.2	6.5	8.8	47.5
1975	22.8	9.0	7.4	39.2

The reduction in the annual amount of gold bullion bars sold in the world market since 1970 has been even greater than the decline in total production. The difference is due to the much larger volume of gold coins produced in recent years. From 1933 through 1968 gold coin production was negligible. In 1970 not much over a million ounces of gold production was diverted into coins. By 1975 this total had increased to 7 million ounces. It is estimated that the supply of gold bullion bars on the market in 1976 will total about 25 million ounces, exclusive of sales by the Soviet Union and the IMF, compared with estimated industrial demand of 35 million ounces.[3] The apparent 10 million-ounce supply deficiency is assumed to be offset by a combination of Soviet and IMF gold sales.

The world gold supply from all sources -- including sales from official stocks -- appears now to be in approximate equilibrium with demand for industrial bars and gold coins. There is very little speculative buying of bar gold. The current situation is, therefore, useful as a base for assessing the short and long run outlook for the supply, demand and price of gold as well as the factors which influence changes in mining production and industrial use.

In common with other minerals, gold in its natural state tends to

[3] U.S. Treasury Department staff paper.

be concentrated in pockets or "reserves" throughout the world, typically below ground, in varying accessibility and extractable at varying costs. The greater part of these reserves have, in broad terms, been identified and classified according to estimated amounts and production costs. What will be done with them is a matter of basic economics. The key consideration being that below ground gold anywhere will be extracted and processed into a marketable commodity only when and if it can be sold in a competitive market at a price that exceeds production costs, including an adequate return on capital. Capital resources will be directed into new gold production only if the expected range of future prices indicates the investment will be profitable.

On the demand side, gold will be bought by industry only if it can be used in products that can be sold at a profit in a competitive market. Capital resources will be directed into gold using industries only if expected future prices will allow for profitable operations.

There are, of course, other considerations which make the relationships between costs, price and gold production imprecise in the short run. Closing down and reopening a mine can be an expensive process. There is, therefore, a tendency for mineral producers to keep mines operating for a reasonable time during loss periods if there is an expectation that the cost-price ratio will turn favorable. If the cost-price ratio does not improve sufficiently the producers obviously must at some point cease operations. Prior to World War II, California, Colorado, and Alaska were important gold producers. In the 1930's, gold was even profitably mined in the suburbs of Washington, D. C. These operations ceased because they were no longer profitable.

The evaluation of current and prospective production costs and market prices is a continuing process by all gold producing units as well as by the governments directly concerned. Under provisions of the Minerals Policy Act of 1970, the U.S. Bureau of Mines is required to make periodic long-range estimates of the world supply and demand for

a broad range of minerals, including gold, under various supply-price assumptions. In its most recent estimate the Bureau concluded that the mining of about 1.3 billion ounces of below-ground gold reserves is economically feasible at prices up to $200 an ounce (in 1974 dollars). At higher prices a larger total could be mined profitably. At lower prices the amount of extractable reserves would be less. The geographical distribution of these reserves in millions of ounces is as follows:

Estimated Below-Ground Gold Reserves
(Millions of Ounces)

Republic of South Africa	800
USSR	200
United States	120
Rest of the World	200
	1,320[4]

The total remaining below-ground gold reserves are about matched by the approximately 1.3 billion ounces held in the vaults of governments and international agencies:

Government Gold Stocks, June 1975
(Millions of Ounces)

U. S.	275
IMF	153
West Germany	118
France	101
USSR	100 Est.
Switzerland	83
Italy	82
BIS	6
Other Countries	361
	1,280

[4] U.S. Bureau of Mines: Mineral Industry Yearbook, 1974.

And finally, non-government gold holdings in coin, bullion and other non-fabricated form, are estimated at about 500 million ounces. The estimated breakdown of non-government gold holdings exclusive of fabricated products is about as follows:

Estimated Private Gold Stocks, December 1975
(Millions of Ounces)

Coins	400
Private bullion holdings	75
Industrial inventories	25
	500

Combining the three components, a reasonable estimate of the total of all world gold reserves, below and above ground, is about 3 billion ounces. Collectively, this is the world's total supply of gold and all of it can be presumed to be in process of conversion into final consumption however far into the future the end result may be.

In addition to global estimates of workable gold reserves under various price assumptions, a relevant current market factor is the separate estimates by individual producers and would-be producers that comprise the global figure. Comprehensive data on current gold production costs and private projections of reserves and future costs are not readily obtainable. However, there is enough data available to form general conclusions on the current cost picture and to hazard a few conclusions on future supply-price trends.

Two-thirds of the free world's gold supply is produced in South Africa by privately owned companies operating in the expectation of making a reasonable return on their capital investment. Decisions on whether to expand operations or indeed whether to continue operating at all are based on a continuing assessment of production costs and market prices.

In 1975, 39 operating mines in South Africa produced about 22

million ounces of gold. Working costs at the various mines, according to data from the Chamber of Mines, ranged from $32 to $199 per ounce of gold with a weighted average cost of about $73 per ounce. Adding in capital costs would increase this average figure by about 15 per cent although capital outlays will, of course, vary greatly from mine to mine.

Of more immediate relevancy is the proportion of current production with costs approaching or above the current price. Seventeen mines with about 20 per cent of the total South African output reported working costs in 1975 in excess of $100 an ounce. Eight mines with about 7 per cent of total output required State financial aid in 1975 despite an average gold price for these mines of about $137.

In December 1975, the U.S. Bureau of Mines completed a study comparing production costs at three representative gold mines: the Carlin mine, an open-pit operation in Nevada; the Homestake mine, an underground operation in South Dakota producing 300-400,000 ounces a year; and the Kinross mine, a producer of similar size in South Africa. Two methods were used to derive comparable costs: (1) use of company reports on sales of gold and net income, and (2) a financial computer program simulating each operation using production data and estimated capital and operating costs to compute depreciation depletion, taxes and the price required to generate sufficient revenues to obtain 0, 12 and 20 per cent rate of return on the invested capital. The results of the study are shown in the following table.

Summary of the Prices, Incomes, and Costs of the Carlin, Homestake, and Kinross Operations[1]

Method 1. Use of company annual report data[2]

	Carlin	Homestake	Kinross
Sales price[3]	$164.93	$157.85	$163.46
Less net income	67.96	53.67	56.02
Company cost deductions[4]	$ 96.97	$104.18	$107.44

Method 2. Computer simulation to compute price to generate sufficient revenues to obtain the indicated DCFROR.

	Carlin	Homestake	Kinross
Price @ 0% ROR[5]	$ 45.31	$91.12/90.36[6]	$132.97[7]
Price @ 12% ROR	48.64	94.64/94.77	138.57
Price @ 20% ROR	51.60	96.95/97.86	142.77

---

(1) All values in 1974 U.S. dollars per troy ounce gold.

(2) Source: 1974 company annual reports.

(3) Sales price derived from total revenues of gold sales divided by total ounces of gold sold.

(4) Cost deductions include all operating costs, depreciation depletion, exploration, research, interest expense, taxes, and miscellaneous costs.

(5) These prices are sufficient to generate revenues to pay taxes, return [illegible] the investment, and return a profit if ROR is greater than 0.

(6) Values preceding the slash were obtained by expensing all estimated capital costs and including these costs as operating costs. This includes mine equipment replacement. Values following the slash were obtained by capitalizing these estimated capital costs.

(7) Computer routine adjusted to delete depletion, investment tax credit, local taxes and to accommodate annual tax value listed in available data.

Source: U.S. Department of the Interior, Bureau of Mines.

Gold production costs have risen substantially in recent years. Much of this increase is due to higher labor costs, particularly of black workers whose wage rates have quadrupled over the past three years. Increases in production costs at the various mines in 1975 varied from 16 to 30 per cent. Comparable increases are expected in 1976.

In addition to higher costs for labor and capital equipment, the substantial reduction in recovery grade in recent years has been an important factor in raising working costs per ounce of gold produced. Since 1970 annual ore production has remained relatively stable at about 75 million tons. But the amount of gold obtained from the ore milled has declined from 989 tons in 1970 to only 708 tons in 1975. In part this was a planned reduction in recovery grades in keeping with normal practice at higher gold prices required by the South African Government.* But the lower recovery rate is also due to a steady depletion in the richer ores at many of the older mines, a trend which will continue in the years ahead.

Cost pressures on the producing mines have been somewhat eased by the recent devaluation of the rand which has improved the gold producer's cost-price ratio. But this is only a temporary palliative. In the longer run devaluation of the local currency tends to increase domestic inflation which will worsen the cost problem for gold producers.

There is no reason to expect that the producer cost situation in other non-Communist countries is materially different from that in South Africa. The annual amount of such production has been declining for years and now totals only about 7 million ounces. Gold production

* Much is made of this point in analyses of gold production trends. But since the nominal gold price only changed once in two centuries prior to 1968, the practice is certainly not deeply rooted in tradition.

in the United States is down to about a million ounces a year, nearly half of which is a by-product of other metals. Most of the remainder is from relatively high-cost deep mines. Homestake mine, the largest American gold producer, reports production costs per ounce as very close to the current market price and rising steadily. In Canada the picture is much the same. Most of the Canadian gold output is from deep mines and working costs per ounce are estimated to be predomi nately in the $120-130 range.

Among the world gold producers, only the Soviet Union has increased output in this decade. Although no precise figures are available, current Soviet gold production is considered to be increasing and may now be in the area of 10 million ounces a year. A large proportion of Soviet output is placer gold mined from surface deposits. Ordinarily this tends to be relatively low-cost production but the difficult terrain and weather conditions under which the gold is produced probably make working costs at best comparable to western mines. As elsewhere, human and capital resources in the Soviet Union are limited and gold production is not likely to expand unless the cost-price ratio is favorable compared to other investment alternatives.

While there are ambiguities in gold production cost data and comparisons between geographical areas cannot be precise, one general conclusion seems clearly evident. The cost of producing gold everywhere has risen sharply in recent years, is now pressing against the market price, and is certain to continue rising over the foreseeable future. Setting aside for the moment the disposition of above-ground stocks, this trend must ultimately force increases in the market price unless offset by one of two possible offsetting factors, both extremely unlikely. The first would be a major adverse shift in the industrial demand curve for gold. The second would be the discovery of a massive new underground gold reserve. There are no present indications that either of these possibilities will occur.

In a competitive market, a rational gold producer, whether in South Africa, South Dakota, or Siberia, will mine gold in as much quantity as possible as long as the market price exceeds marginal production costs. If production costs and/or market price turn adverse, the more costly operations will be curtailed until the mine is once again profitable at the margin. If no combination of ore grade and production volume covers working and capital costs the mine will close down.

If producers had instant availability of correct data and perfect flexibility in resource use, responses to cost-price changes would be immediate. In practice of course such perfection is never achieved. Shifts in production in response to imperfect data can be costly. The expense of closing down and re-opening a mine is substantial. There is therefore, a tendency to maintain production under adverse conditions in the hope that the situation will improve. Also governments are prone to subsidize deficit operations for reasons more political than economic, more fanciful than real.

These factors tend to slow the response of gold producers to changing market conditions, but they do not negate the ultimate effect of market reality. Production costs and market prices for any commodity cannot be out of line for very long. Assuming a normal demand curve, an across-the-board rise in production costs will ultimately be reflected in a higher market price, temporary declines notwithstanding.

In various assessments of the current state of the gold market and future price movements great emphasis is frequently given to the changing attitudes of so-called "speculators and investors" -- a supposedly volatile group whose changing mood can move the gold price sharply in either direction. But an objective analysis of the historical record indicates that this belief is simply one of many modern economic myths. Over the past two centuries speculation in gold has been a significant factor in the market in only two brief periods -- a few months prior to

Industrial Demand

The industrial demand for gold is usually classified in three categories: (1) jewelry in a variety of forms, (2) dental products, and (3) other industrial use, primarily electronics but including substantial amounts for insulation and decorative use. Industrial buying is the mainstay of the gold market averaging over 85 per cent of total private demand since 1970. Any judgment of future demand for gold must, therefore, be based primarily on the composition of industrial demand and its response to price developments.

World industrial demand for gold rose steadily from the end of World War II until the early 1970's. Stimulated by a declining real price and an expanding range of new technical uses, industrial gold-buying more than tripled from 1950 to 1970. In the years 1970 through 1972 industrial gold demand was substantially in excess of total mine production in the non-Communist world. The gold price surge and unsettled market conditions in 1973 and 1974, together with a general slow-down in the world economy, resulted in a sharp cut-back in industrial gold demand. The drop in industrial gold-buying was magnified by a concurrent reduction in industrial gold inventories.

In 1975 with lower gold prices, more stable market conditions, and an improved world economy, industrial gold demand recovered sharply. The rise in industrial buying has continued into 1976. A recent Treasury staff study cited elsewhere estimates industrial gold demand in 1976 at 35 million ounces -- a figure very close to current world gold production including the Soviet Union. If allowance is made for a diversion of 5 to 7 million ounces of annual gold production into coins, the supply of gold from current production is now insufficient to satisfy market demand at the present price level in the absence of supplementary net sales from government stocks.

A further comment at this point on the demand for gold coins

might be helpful in defining the current market. Public buying of gold coins ranges from very limited issues of artistic merit at a price substantially above the value of the gold content to the so-called bullion coins available in whatever quantity the market demands at only a slight premium over the gold content value. The first category is generally conceded to be a form of gold consumption not very different in concept from gold jewelry. The latter category is usually considered as a form of gold speculation or investment, akin to a purchase of bullion. Indeed, for anyone wishing to hold physical gold for whatever purpose, bullion coins are probably as good a way to do this as any other.

However, a conclusion that the total of bullion coin purchases should be included in the "gold speculation and investment" category is at least open to question. Resales of these coins are infrequent so they tend to be firmly held by the original buyers. Among certain classes, gold coins are included in the portfolio of assets as a form of disaster insurance with no expectation at all of speculative or investment gain. If the political or economic disaster never occurs, the cost of holding the coins can be written off as a form of term insurance. In certain parts of the world the purchase and holding of gold coins can be a useful aid to avoiding income or inheritance taxes and the gain or loss in holding the gold is a secondary consideration. The cost alternative would be to hire a good tax lawyer.

The main point is that gold coins are to some extent bought and held for reasons only dimly related to speculation or investment. A reasonably solid market for bullion coins has developed in recent years partly as a replacement for individual bullion-buying in earlier years and partly as an add-on to total private demand. To a considerable extent this buying will be maintained.

But the dominant factor in the gold market in the future, as it has been in the past, will be industrial demand.

The price elasticity of industrial demand for gold has until very recently received little attention in analyses of the supply, demand, and price outlook for gold. Attention has centered on such marginal factors as monetary disagreements, exchange rate shifts, inflationary expectations, and political instability in this or that country. These considerations, if they influence the price of gold at all, affect at most 10 to 15 per cent of total market demand. The central issue that directly concerns the buyers of 80 to 90 per cent of gold production has been largely ignored. It is this: Can gold at a given price be converted into a product that can be sold in a competitive market at a fair profit?

Gold in all its commercial uses is a substitutable commodity; that is, there are alternative materials that can be used if not precisely as well as gold, then nearly as well. Logic tells us that at higher prices consumer resistance will set in for gold-fabricated products which will be transmitted through industrial fabricators to the world bullion market. At lower prices rising consumer demand will affect the bullion market in the opposite direction. The reference here is to prices in constant dollar terms since inflation (or deflation) simultaneously changes the whole economic context, incomes, production costs and the prices of substitute materials.

Two recent economic analyses have been directed to the question of whether and to what extent the industrial demand for gold is influenced by changes in the market price: one by the research staff of the United States Treasury Department and another by Peter Fells and Christopher Glynn of Consolidated Gold Fields Ltd. Both analyses reach essentially the same conclusion, that industrial demand for gold to highly responsive to changes in price, rising when the real price declines, and vice versa.

The Treasury study, cited earlier, concludes that the industrial demand for gold is responsive both to changes in price and income. World industrial price elasticity for gold is estimated to be between

-.5 and -1.0 with -.7 a reasonable figure for working use. Income elasticity is estimated to be within .8 and 1.5 with 1.0 a figure not inconsistent with the study results. In broad terms the implications of these figures are that at a constant real price, industrial use of gold will increase at approximately the same rate as real GNP. At lower real prices industrial gold use will rise more rapidly than GNP. At higher real prices industrial use will rise more slowly or even at some point decline.

The Fells-Glynn conclusion is similar in substance, estimating that for every fall of $1 in the gold price (in 1975 dollars) annual purchases for jewelry fabrication will rise by 6 tons. The implicit price elasticity figure would be in the upper range of the Farrell study. The implications of their conclusions, according to Fells and Glynn, are that at the current gold price level ($120 to 130) jewelry fabrication absorbs about 50 per cent of present gold production, with other industrial demand and coins absorbing the remainder. At lower prices non-speculative demand would exceed production; at higher prices, production would exceed industrial demand. It may again be noted that the reference here is to prices in constant dollars which lag the nominal gold price by the world rate of inflation.

The conclusions that can be drawn from these studies regarding future trends in the supply, demand and price of gold are of some interest and importance.

The most important general conclusion is that there will be an excess of industrial demand over current production in future years, if the price of gold remains stable in constant dollars. Moreover, because of the income elasticity factors, the shortage of production relative to industrial demand would steadily increase. Expressed another way there will be an increasing need for gold sales or leasing of gold from government stocks in future years within the context of the present gold price range ($120-130) in constant 1976 dollars. If

there is a curtailment of sales from government stocks, or if they are held at the present level (about 10 million ounces a year, including Soviet sales) the price of gold must rise relative to other commedities in order to bring current supply and demand into balance; i.e., to induce producers to maintain output and/or force consumers to cut back buying..

The qualitative substance of this conclusion is more important than trying to quantify it in precise amounts. However, the elasticity studies now available give a good clue as to the future amounts of government gold sales that would be consistent with a fair market value to both producers and consumers, and would not arbitrarily disrupt the normal market process as government actions have done in the historical past.

A reasonable projection of the Farrell and Wells-Glynn findings in the context of the future supply outlook would allow for an annual increment of one to three million ounces of government gold sales over the next decade to meet expected industrial needs at a relatively stable price in constant dollars. By 1985, this would mean annual gold sales from government stocks would be in the range of 25 to 30 million ounces at a current dollar price roughly double the present level.

The key consideration here deserves repeating for emphasis. The dynamics of gold production, industrial demand, and price over the next decade will require either an increase in the real price or a rising increment of supply from above-ground stocks -- government or private. There is no strong possibility that private gold holdings will contribute significantly to the future industrial need nor are such stocks -- which are mostly in coin -- available in sufficient quantity in any event. Government gold stocks no longer have a formal monetary function and will gradually be made available for industrial use, in quantities sufficiently marginal to allow the market price to be predominantly determined by the interaction of private supply and demand. Sales from government stocks in reasonable amounts are not inconsistent with this objective.

The Gold Market

A free marketplace for goods, or labor or securities or commodities is simply a communications facility where potential buyers and sellers -- directly or indirectly, in confrontation or through middlemen -- are able to negotiate a mutually acceptable price based on perceived self-interest. In all such markets a set of practical procedures and customs have evolved to facilitate the transaction and pricing needs of the participants. The general objective of these procedures is to maximize transaction volume and enable the range of prices to accurately reflect the collective judgment of the market participants.

The gold market, in its essentials, is virtually identical to those of other world-traded, non-perishable, commodities such as silver, platinum, or copper. These commodities are fungible, that is the accepted trading unit is specifically defined as to amount and quality, each one identical to all others. No physical inspection is required for a transaction to take place. Technically advanced communications facilities have removed geographical limitations to the market for fungible commodities. Trading and pricing can occur, therefore, continuously world-wide in a variety of currencies, at a common price wherever artificial barriers are not imposed at political boundaries. Although a transaction can occur between any two points where there are telephone or telex facilities, major trading centers have evolved where there is a concentration of buyers and sellers, an absence of political restraints, and an historical tradition of commodity trading. Such trading centers are closely linked by modern communication facilities and as a practical matter can collectively be considered a single world market.

The active participants in the world gold market, in common with those of related commodities, can be grouped in four major categories:

producers, traders, speculators, and industrial consumers.

The Producers

Gold is produced for a single purpose: to be sold at the highest available price in excess of production costs. For centuries prior to March 1968, when a free gold market began, producers faced no problem in differentiating between buyers, in seeking out the highest available price. The world gold price was pegged at a fixed level with governments the unlimited buyer and seller of last resort. The only concern of producers was that the official price be high enough to permit an operating profit. Their economic interest was focused almost entirely on government gold policy and only marginally on industrial demand. Governments were both the buyers of the bulk of gold production and the major sellers of gold for industrial use except where marginal advantages of location or transport cost permitted sales directly from producer to user at the prevailing fixed price.

On March 17, 1968, the governments of the major industrial nations by agreement halted all gold dealings with the private market, either as buyer or seller. This sudden action created momentary confusion among the gold producers who had always considered governments, if not the only buyer, the only one to which they had ever given much thought. Attention quickly turned to resolving the questions of who else buys gold and how is it sold.

The sales problem of the gold producers in the United States was quickly resolved. Since 1933 the private gold market had been closed to international transactions. Gold was produced and refined for sale either to the United States Treasury Department or to licensed industrial users. Industrial users had the alternative of purchasing bar gold from the Treasury or from a licensed refiner. Since the Treasury was the residual buyer or seller, one price prevailed for all. The use of gold

by American industry had risen rapidly in the 1960's and by 1967 exceeded six million ounces, more than four times domestic gold production. The large supply deficit was met entirely by sales from the U.S. government gold stock.

The sudden halt to government gold sales in March 1968, sent the major industrial buyers on a hasty search for new sources of supply. Unfamiliar with foreign markets, they turned to domestic producers and negotiated supply contracts, typically based on a premium over the London price. With world market prices relatively stable, this pattern of marketing American gold production continued for several years.

Following the halt to government gold purchases and sales, the Treasury quickly took three administrative actions intended to restore viability to the United States market. First, American producers were permitted to sell their gold anywhere in the world at the best available price. Since the U.S. price was typically at a premium, very little gold was exported under this provision. Second, industrial users were permitted to acquire gold in any world market at the lowest available price, up to the limits of the amounts they were licensed to hold. Third, private traders were licensed to acquire gold in any market for resale to American industrial users. This authorization was eventually broadened to permit American branch firms abroad to deal in gold with foreign nationals in order to maintain a competitive position in these markets. Prior to this time private bullion dealing was permitted only as an adjunct to refinery operations.

The sudden impact of the two-tier market on South African gold producers was even more traumatic. Since the nineteenth century South African production had been marketed in London either directly to the Bank of England or through the London dealers under the general supervision of the Bank. For reasons which are now obscure, the Bank of England closed the London market to gold dealing for a critical two-week period immediately after the two-tier market opened on March 18, 1968.

The Swiss banks quickly moved into the breach and the three largest (Swiss Bank Corporation, Swiss Credit Bank, and Union Bank of Switzerland) formed a pool to purchase and market all South African gold production at prices to be regularly negotiated.

The undertaking between the South African Reserve Bank and the Swiss pool concerned the initial transfer of title to the gold. The physical delivery of South African gold continued to be made to London. In 1972, the South Africans agreed to restore a portion of their gold sales to the London dealers. At present, South African gold sales are divided between the Swiss pool banks and the London dealers. There are no public figures on the proportion going to each, and opinions differ. However a 50/50 split is probably not far from the mark.

The Soviet Union is the other major world source of gold. Although their sales are sporadic, the total amount is substantial. Soviet gold sales are usually made in the Zurich market initially through the local Soviet bank. Their basic objective is the same as other producers, to obtain the highest average price. However, the Soviets are more prone to manipulate sales patterns to achieve this objective. Depending with foreign exchange needs, they tend to hold gold off the market when they think a better price can be realized at another time. This form of short-run speculation is usually a losing proposition compared with converting output into cash as expeditiously as possible.

Speculation in the gold market has not been confined to the Soviets. Producers in other countries have on a smaller scale occasionally gambled by temporarily building up stocks. Industrial users also from time to time indulge in this practice although there is considerable self-deception involved. Indeed, the largest American industrial gold consumer tries to outguess the market as a matter of policy in the conviction (doubtful) that it is better informed than the average buyer. All speculators, of course, share this conviction.

One important point should be clearly understood. No gold producer is irrevocably tied to any marketing locale or procedure. All current arrangements are temporary and subject to change should more profitable alternatives emerge. Every producer is constantly re-assessing the market with this in mind.

No drastic changes in the marketing of gold production are likely in the immediate future. The South Africans have had considerable success in building a market for bullion coins. While krugerrand sales are down somewhat from the 1975 high, demand seems to be holding at a substantial level and is likely to rise gradually over the longer run. The offtake of gold in the form of coin has eased the problem of bullion sales through essentially a separate market.

The great bulk of world gold production is sold directly into the dealer market, primarily through Zurich and London. Direct marketing arrangements between gold producers and industrial consumers are rare, except to a modest extent in the United States, and it is not likely that such arrangements will expand in the future. The producer price procedure which is used in marketing copper, platinum, palladium and other metals is practical only when a few large industrial consumers dominate the market. The industrial market for gold is too diversified for such arrangements to work. And the constant possibility of sales from above-ground stocks would make a producer price agreement on gold precarious in any event.

The Traders

Traders, or dealers (the terms are interchangeable) play an indispensable role in any large market with a multiplicity of widely dispersed buyers and sellers. The trader's function, whatever the commodity -- gold, copper, oil, coffee, securities -- is to bridge the gap between buyers and sellers who would otherwise find it difficult or impossible to come together. The dealer in a real sense makes the market.

The trader acts as a point of convergence for buyers and sellers both in space and time. A holder in Frankfurt may wish to sell spot gold for marks at the same time as a buyer in Chicago wants to contract in dollars for six-months' delivery. By acting as principal in both transactions, the professional gold trader links the two into a single world market.

Although the dealer acts as a principal not a broker in all transactions with buyers or sellers, his objective is to keep his open position at a minimum by balancing buy and sell commitments with others as closely as possible. The trader is not a speculator, nor is he normally a net supply or demand factor in the market. Like the second-hand clothes dealer, the gold trader's profit comes not from price changes but from his buy-sell spread and transactions volume.

In theory, anyone can become a trader in gold or any other commodity simply by hanging out a shingle and quoting a buy and sell price. In practice, however, the sharp competition, and the experience, skills, and required capital, limit the profits needed for survival to a relatively few agile participants. When the two-tier market began in 1968, the Treasury issued licenses to nearly fifty would-be gold dealers, only four or five of which are still active. In the entire world, the gold traders of any real consequence number less than twenty, all of whom are in constant contact to deal with each other and buyers and sellers throughout the world. In total, this group constitutes the world gold market and virtually all gold transactions are effected through one or another of these dealers.

There is one key factor in the gold market which makes it distinct from the markets for other commodities -- with the possible exception of silver. The market factor unique to gold is the enormous quantity from past production held by a diversity of government and private speculators and hoarders throughout the world, an amount estimated to be in excess of 1-1/2 billion ounces, most of it in government stocks.

The holders of this vast stock of gold neither receive nor expect any current return on their investment. The incentives for continuing to hold this hoard are fear of other investment alternatives, the hope of a future speculative profit, or pure lethargy.

The existence of this large above-ground widely held stock of gold affects the dealer market in two principal ways. One obvious effect is that it creates a need for a dealer service to match those who want to hold less gold with those who want to hold more gold for whatever reason. When the negative attitudes outweigh the positive ones, the price eases to a level at which they are again in balance and vice versa. This service is roughly analogous to that performed by an art or antiques dealer or even a dealer in used cars.

Although this is the popular notion of a gold dealer's principal function it is doubtful if the volume of voluntary transfers between private gold holders of differing views is sufficiently large to generate more than a modest return to a relative few except during periods of volatile price change. While the mechanics of this traditional dealer function may make it appear that he is "trading for his own account," such trades simply reflect simultaneous changes of opinion on gold in the external market. When these changes in view are numerous and substantial the price moves and the dealer's volume rises. When there are few differences in the public's attitude toward gold the dealer's business declines. But whatever the situation the dealer's own opinion on gold is irrelevant to the volume of his trading.

In addition to trading among holders of bullion, there is another more subtle way in which the above-ground stock of gold affects dealer activity in the world market. Conceptually, there are really two separate stocks of gold moving in different orbits. One is the vast stock held in unchanging bullion form without expectation of current income by individuals and governments. A second, no less real above-ground stock, is the substantial quantity in industrial and commercial hands which is

constantly changed in form to generate an income return. The industrial stock changes from bullion, through semi-processed stages into fabricated products much of which eventually re-enters the cycle as recovered scrap material. Since gold is almost indestructible very little of it actually disappears, no matter what form in which it is held. Historically there has been very little net transfer of gold between the sterile stocks of governments and other hoarders on the one hand and the income-generating stocks of commercial holders on the other. The present challenge to the gold dealer market is to devise innovative procedures by which such transfers can be made attractive and feasible given the perceived self-interest of both groups.

In persuading the gold-hoarders -- both government and private -- to temporarily part with their treasure, there are two basic problems to be overcome. First, they collectively desire to hold title to a fixed amount of gold at a given price, for whatever reasons. And second, the owners require assurance that their gold assets be reasonably secure against physical loss. Consequently, any practical techniques for moving gold from sterile hoards into industrial processing channels must, all other things equal, neither change the amount of gold in which there is a private equity interest or significantly increase the risk of its physical loss.

In basic concept, the gold investor to participate in a gold-leasing arrangement must be willing to accede to a physical movement of part of his stock from a bank vault to an industrial production line in return for a payment or fee. It would not be feasible for most holders to directly negotiate such an arrangement, but there is a practical way in which the transfer can be made based on the recent development of a large and viable futures market in gold. The procedure would operate as follows:

Assume that gold investor A desires to reduce his stock while investor B wishes to increase his holding. The transfer obviously could

be made through two concurrent spot transactions in the dealer market. But assume further that investor B is willing to take delivery of his added gold say six months in the future with his payment to be made at that time. In this instance the gold dealer, who has concluded separate transactions with both A and B, will have borrowed an amount of gold from the private investment stock which he is obligated to deliver back at some future date.

The dealer can simply store the gold in the interim with the price for future delivery covering his financing costs. Or, as an alternative, he might elect to lend or lease the gold to someone, presumably an industrial user, who can generate profit from its use. The dealer would then receive in return a fee adequate to cover whatever additional risk may be involved due to possible borrower default.

Since there are a great number of spot and future market transactions in gold, occurring continuously, any given gold lease arrangement can be rolled over indefinitely with only the fee changing at the end of the agreement period. The total amount of gold available for lease depends on the attitude of gold investors expressed either in direct negotiation or in trading volume on the various futures exchanges.

With regard to satisfying the security needs of the holders of gold for investment, it should be recognized that no gold depository -- be it bank vault or backyard burial -- is without some degree of risk that the gold will not be readily available, or indeed not available at all. Many holders of gold for investment have only a certificate from a reputable bank that the gold is in fact there. If they have confidence in the bank, they believe the quantity of gold specified will be available to them under the terms of the certificate. And for that the gold investor asks for no payment, indeed is willing to pay the bank a small fee for holding gold which he has never seen. It would seem that the risk in lending gold to a large established industrial corporation is no greater than the risk in lending gold to a large established commercial bank.

The difference is that the corporation is able and willing to pay a fee for holding the gold while the bank is not.

The fee charged by the trader for leasing his gold should be sufficient to cover (1) his out-of-pocket costs, i.e., the extent to which the difference between the spot and futures prices is less than his interest cost; (2) the risk that the borrower will default on his obligation, the charge for which will vary according to the credit rating of the borrower of gold to the same extent that money-lending charges vary; and (3) the trader's profit. The key consideration in this procedure is that the total annual leasing fee be less than the cash borrowing rate which would be the minimum cost of financing any company's gold inventory.

The potential amount of gold under industrial lease, while substantial, is not large relative to total industrial purchases. The overall limitation is the total volume of industrial gold in inventory which is probably not over 25 million ounces world-wide. Obviously the amount of leased gold would not reach this figure but it is possible that the amount could exceed five million ounces within the next few years and increase gradually thereafter.

There are two main limiting factors to the growth of industrial gold leasing: (1) the capacity of the futures markets to handle the required volume of hedging, and (2) the possible immediate tax liability if the company is on a LIFO inventory basis -- as most American industrial users are. The latter problem will diminish if the price of gold holds fairly stable for an extended period of time.

To effectively carry out these arrangements the gold trader must have a substantial source of capital and ready access to a supply of credit at low cost. The successful arbitrageur must operate in volume on very small margins in which minute differences in interest costs are critical to maintaining a competitive advantage. Consequently, all of the major traders are either banks, owned by banks, or have close

working arrangements with banks.

But apart from financial considerations, the key attributes of a competitive gold trader are flexibility and an innovative nature. The competitive gold market is new and in many ways different from the markets for other commodities. New trading practices are appearing and the institutional structure of the market is being created by those who are participating in the day-to-day actions.

Private trading in gold in the modern sense began with the formation of the London market in September, 1919. Prior to the First World War the price of gold was fixed in terms of open convertibility into the major currencies. The producers and buyers sold to or bought from the central banks at an unchanging price so there was no purpose to a private market for gold trading. The suspension of convertibility by the British Government opened the way for a gold trading market in London with international participation and South African production as the major source of supply. The resumption of gold purchases and sales at fixed prices by the Bank of England in 1925 put a damper on gold trading in the London market. In 1931 the British Government ended convertibility and the London market resumed active operations until the outbreak of World War II. The London gold market re-opened on a limited basis in 1954 and from 1960 to 1968 functioned as the conduit through which the major Western powers attempted to control the gold price within narrow limits. Since 1968 the London dealers have operated as a major part of the free world market for gold.

A unique feature of the London market is the so-called gold "fixing" twice daily at 10:30 and 15:00 hours G.M.T., when for a period of perhaps ten minutes or less the five member firms in effect deal as a unit with the rest of the world at a single price which reflects a balance in gold supply and demand at that point in time. At all other times when the market is open the London firms deal in gold independently and competitively, with separate buy-sell prices just as do dealers in other market centers.

The fixing procedure itself is fairly simple in concept. Representatives of the five London firms gather in a room in open telephone contact with their respective trading offices. The Rothschild representative, who is chairman, begins the proceedings by naming an opening price which he considers in line with gold trades which may have occurred just prior to the fixing period. Each of the five representatives immediately checks with his firm to ascertain the net of buy and sell offers at that price. Before the fixing each firm will have received tentative offers from other dealers or clients throughout the world to buy or sell gold at various specified prices or perhaps at the "fixing price" itself. These offers are added up, together with any new ones in response to the opening fixing price (already on the Reuters wire) and a net buy or sell balance for each member firm is communicated back to the fixing room. The chairman adds up the net sales and/or buy positions of the members and if they total zero, that price becomes the final fixing, the session is over, and the transactions are completed. However, if there is an excess of buy or sell balances, the chairman names a higher or lower tentative price and the procedure is repeated until a balance is reached between the buy-sell positions of the five firms. Only offers to buy or sell at the final fixing price are consummated. The profit to the dealers is a 1/4 per cent fee on gold sales. Purchases are made at the fixing price without additional charge.

Although the procedure is not used in other trading centers the London "fixing" is a useful institution in the world gold market. Although participation is limited to large buyers and sellers, mostly other professional dealers, the contact is world-wide and the negotiated gold price represents a true balance between world supply and demand at the time of the fixing. The London fixing price is, in effect, established through an auction in which all traders throughout the world directly participate.

Zurich is another important gold trading center, primarily for two reasons. First it is a sales conduit for a large share of South African

and Soviet gold production. And second, the large private accounts at the Swiss banks have traditionally shown an interest in gold as an investment and are a convenient local source of funds.

While Zurich is and will continue to be an important trading center for gold, it has one key drawback in that the major dealers are commercial banks rather than trading firms as in London and New York. Although the Swiss banks are as competent as any in dealing with gold, commodity trading is not a normal banking function. Like other commodities gold is now subject to substantial price variation and very few of the larger banks anywhere have shown much interest in gold dealing given its present commodity status. Unlike London and New York, Zurich is not a trading center for commodities in general, so trading in gold and silver alone makes it a rather specialized commodity market.

The Swiss banks will undoubtedly continue a gold dealing function but are not likely to move aggressively to expand operations. As the years pass and traditions fade it is likely that the Zurich gold market will diminish in importance relative to other trading centers.

A number of gold trading centers operate on a regional basis elsewhere in the world. Beirut has been the traditional center for distributing gold throughout the Middle East. The political turmoil of the past year or two has shifted much if not all of this trade to other centers -- notably Damascus and Kuwait.

Hong Kong and Singapore have long been the major centers for gold trading in the Far East.

The recent easing of government restrictions has increased the potential for expanded gold trading in Tokyo and Manila.

The United States as a gold trading center is the newest and probably fastest growing addition to the world market. Active American gold dealers include Mocatta Metals Corporation, Philipp Bros. (a sub-

sidiary of Englehard), J. Aron & Co., and two commercial banks, Republic National Bank in New York and Rhode Island Hospital Trust Co. in Providence. These dealers operate world-wide and are an integral and important part of the world gold market. In addition, practically all of the major European gold dealers have established active branch operations in the United States.

The United States with principal operations in New York and Chicago is likely to become the largest of the world gold trading centers as it is for most of the other basic commodities. There are a number of factors at work which make this development highly probable. First, the United States is a completely free investment market with no Government restraints on the flow of currency, capital or commodities across its borders. This is a primary requisite for any country becoming a focal point for world financial activity.

Second, communications and other facilities in the United States for dealing in securities and commodities are unmatched anywhere in the world. New York is by far the largest capital market in the world as well as the principal center for trading in most of the basic commodities, including silver. Gold would seem a natural addition to this list.

Third, the United States has for years been the largest industrial market for gold in the world. The purchase of gold by American industry has over the past decade been the strongest sustained factor in the demand for gold, absorbing between 15 and 20 per cent of the total world supply of bullion.

Fourth, the United States has become the largest single source of speculative and investment demand for gold in the world. This may seem surprising in view of the American cool reaction to the lifting of Government restraints on gold at the end of 1974. But the supposed lack of public interest in gold buying and speculation is only relative to the inflated expectations and forecasts by dealers before the event. Although minor compared with other types of investment, the increment to gold

holding by Americans in 1975 in the form of coins and privately held stocks is estimated at over 2 million ounces,* an amount substantially in excess of the increase in private holdings in any other country. Including net purchases for industrial use the total American demand for gold in 1975 approached 6 1/2 million ounces. In 1976 this total may well exceed 8 million ounces, a substantial share of world gold demand.

Fifth, the great bulk of all the above-ground gold stocks of the world are concentrated in the United States. Including holdings by the Federal Reserve Bank of New York on behalf of foreign governments and international financial institutions, over 650 million ounces of gold are physically stored in the United States, most of it in New York City. Market sales from these gold stocks have been trending upward in recent years and will probably exceed 8 million ounces by 1976 including various swap and lease arrangements. Adding on mining production and recovery from old scrap it seems likely that the supply input from new sources in the Western Hemisphere into the world gold market in 1976 will approximate 15 million ounces and grow fairly steadily in subsequent years. The expansion of the gold supply here in contrast to a contraction or a flat trend elsewhere will give impetus to the development of the United States as a trading center.

Sixth, the continuing development of trading in gold futures contracts on the organized commodity exchanges in the United States and gives an added dimension to the American gold market and the expansion of New York and Chicago as trading centers. Although trading in gold futures is still relatively small in volume compared with silver, the total volume of transactions approached 100 million ounces in 1975 and is likely to increase in future years. The availability of a large and viable futures market enables dealers to hedge their holdings and permits

---

* Estimate by Constantine Michalopoulos in Gold 1976, published by Consolidated Gold Fields Ltd.

is a strong factor in the market. Even in periods of currency turmoil, there is no great inducement to speculate in gold. It is more interesting and potentially lucrative to speculate in one currency against another for those who are so inclined.

However, there is one potential arena in which short-term speculation in gold may well expand over the foreseeable future. And that is in gold futures trading on the large American commodity exchanges. In January 1975 gold was included in the list of commodity futures traded on the major exchanges in New York and Chicago. While the volume of gold futures trading in the first year was somewhat below expectations, and is still much less than the interest in silver futures, there is some hope among dealers and brokers of considerable growth over the next few years.

The spectrum of gold futures trading is similar to that of other metals with most of the public participation based on purely speculative motives. Hedging transactions by either producers or fabricators have been only a minor factor. The large industrial users in particular have avoided use of the futures market to hedge against inventory loss and have opted to accept the risks of changes in the market price.

A commodity exchange is in substance a forum where the participants are able to place bets that gold and other commodities will rise or fall in price within a specified period. The role of the clearing house association, a group of the larger brokers and dealers, is analogous to a combine of bookmakers who accept bets on horse races or sporting events and pay off when the bettor wins. Like good bookmakers the gold dealers are averse to gambling risk and consequently always seek a neutral position between contracts with long and short bettors. Since most of the public participants in the futures exchanges bet on price rises, i.e., contract for future delivery, the dealers, in taking the opposite side, find it necessary to acquire and hold physical gold in order to avoid a speculative position. The cost of carrying this gold is normally the spread between the spot price and the range of prices for future

delivery. It should be noted that the clearing house members collectively guarantee that every bet contracted by a member firm will be honored in full.

But an organized exchange is more than just a forum for wagering on trends in the price of gold. In addition to hedging facilities for producers and industrial users, a futures market offers a better procedure for those who wish to obtain an equity interest in gold than the cumbersome alternative of buying and selling physical gold in the spot market. On the futures exchange the actual buying and holding of gold, for future delivery required to balance the market, can be done more efficiently by professional dealers, with the gold then potentially available for productive use.

The normal pattern of spot and futures prices for a non-perishable commodity available in ample supply, such as gold, is roughly equal to the term structure of interest rates over the contract time span. If the spread between spot and futures prices were greater than the interest cost, gold would be bought spot and sold forward at a certain profit (in a given currency). If the spread were less, those who hold gold could sell it spot and buy forward at a certain profit. Professional dealers can profitably trade in the constant small deviations from this theoretical identity.

One caveat should be noted in the above analysis. The conclusion that the spread between spot and future prices of a commodity such as gold should logically equate with the term structure of interest rates is valid only if all of the dealings in the transaction are in a single currency. In that case the required assumption that cash is a risk-free asset is correct. But in a multi-currency transaction involving borrowing in one currency and a futures contract commitment in another, there can be no "locked-in" profit. For example a West German dealing in New York commodity futures must factor in the possibility of a shift in the dollar and the mark exchange rate during the term of his contract. This con-

sideration deters wide-spread international participation in any single futures market.

Futures transactions in gold in the European markets are not under a formal procedure based on government-approved regulations as in the United States but rather are private ad hoc arrangements negotiated with the various dealers. Prices for future gold delivery in all markets are, however, linked by world traders able to hedge against changes in the price of gold and the exchange rates involved.

A comparison with the silver experience indicates how an expansion of gold futures trading can potentially change the structure of the world gold market. Over the past decade trading in silver futures on the American commodity exchanges has come to totally dominate the world market. The massive volume of silver futures contracts traded, 100 million ounces or more in a single day, completely engulfs the physical transfer of spot silver which is only a minute fraction of this amount. An obvious result of this broad participation in the silver market is that the price has become highly volatile, frequently rising or falling 10 per cent or more over relatively brief periods of time.

There is one significant point about the behavior of prices in the futures market for silver as well as other commodities. It is this: the prices will tend to oscillate widely but within a rational context based on the realities of production costs and real industrial demand. Occasional price movements above and below this rational trading range tend to be short-lived. For example, over the past couple of years the spot month price of silver has for the most part fluctuated between four and five dollars an ounce. This is a rational 20 per cent trading range in terms of the real industrial world and can be expected to gradually move upward as production costs rise in future years.

At present the dollar amount of trading in gold futures is only a small fraction of silver trading, and on the average is less than the

amount of physical gold transferred in the major dealing centers. Although trading in gold futures influences the world price, it does not yet dominate the market. But this could change and rather quickly.

If, as in silver, gold futures trading becomes a multiple of physical dealings the pattern of the gold price will change. In recent years the price of gold has shown a few large changes followed by fairly long periods of little or no movement at all. But in an active futures market with broad speculator participation we can expect much more frequent and larger short-run price movements within practical maximum and minimum limits informally set by the market participants. For example, in the current context (mid-1976), if trading in gold futures were two or three times the prevailing volume we might expect the spot month gold price to move rather freely within a range of perhaps $110 to $150 per ounce, with daily movements of three or four dollars creating no great interest except among the actual traders.

It seems likely that over the next few years trading in gold futures on the American exchanges will grow steadily with increasing participation by the speculating public. While this will mean greater short-run price volatility, it will on the whole be good for the gold market by contributing to a more rational pricing range in terms of realistic upper and lower limits.

Industrial Consumers

The great majority of industrial gold users do not deal directly in the gold bullion market nor do they acquire bar gold at all. Most of the gold for industrial use is purchased in semi-processed form -- plating salts, tubing, wire, findings, various alloys -- from a relatively limited number of gold refiners and processors. Only the larger firms have any direct contact with the gold bullion market.

The gold refiners, processors, and sellers of gold in various semi-

processed forms typically base their price on the market price for bullion on the day of shipment plus an add-on for the cost and profit of processing the gold into the form in which it is purchased.

All industrial holders of gold, bullion or semi-processed, bear a risk during the period in which they actually hold title to the gold. Because the price of gold was generally on the upswing until the past year or so, there was little incentive to minimize this risk through hedging or leasing. In fact the reverse was true. Many industrial users chose to maximize their equity holdings whenever possible by consigning rather than selling scrap gold material.

Over the past year this attitude has changed. Industrial gold users recognize that their profit depends on processing and selling a product not on commodity speculation. They are seeking to reduce inventory risks to the extent possible by keeping the quantity down and are exploring other available market facilities -- hedging, leasing, consignment, any device to shift the risk of ownership to others who are able and willing for a modest fee to take the responsibility.

However, with the exception of the major refiners, the large industrial users still hold substantial quantities of gold in exposed positions. Gradually many of them will reduce their equity in gold inventories through forward sale or a sale and lease-back procedure. The full development of this trend is dependent on a considerable expansion of trading in the gold futures market to provide the necessary financing and a ready outlet for dealers to adequately hedge their positions.

Government Gold Stocks

The governments of the world directly or through official international financial institutions now hold nearly 1300 million ounces of gold. This represents close to half of all the gold that has ever been produced and about 30 years' world production at the current rate. Every ounce of this total has been purchased in the historical past by one government or another at a price greater than the current private market was willing to pay.

Like the fable of the blind men and the elephant, the significance and potential economic impact of this great collective hoard can be viewed in different ways. One school of thought views government gold stocks as a perennial depressant on the market price. The potential or actual sale of large amounts from these stocks at any time, it is feared, will deter private investment in gold and even cause disinvestment of existing private holdings. This group tends to consider the actions of private investors as the dominant factor in the gold market.

A second very different view sees large government holdings as a potential support and even a possible plus factor to the market price. They reason that in order to protect the market value of their holdings governments will when necessary buy from each other or even in the market if necessary in order to raise the gold price to a level that will keep new gold production profitable. In short, this group of experts believe that governments individually or collectively, will act to sustain the value of their gold investment even if they have to spend every penny in the public treasury to do so. This can be considered the "pick yourself up by your own bootstraps" school.

A third rather ingenious view sees the potential sale of government gold as a constant stimulus to the market price. This reasoning holds that the risk of a large government sale at any time adds a cost factor

to holding gold which requires a higher constant market price than would prevail in the absence of this risk.*

A fourth down-to-earth group considers government gold stocks as akin to very low-cost mining reserves. As such they would be wheeled out of the vaults and sold in the market whenever the market price exceeds processing costs. This view is not widely held outside the Soviet Union and South Africa which act on this premise.

A final view, which includes most of the world's finance ministers, gives very little thought to the price of gold at all. The gold stock, like the office furniture, was there when the finance minister came and will be passed on intact to his successor when he leaves. The maxim that if a political action need not be taken it should not be taken, is on the whole pretty good statesmanship.

Which of these diverse views is valid? To a degree they all are, and therein lies the problem of properly assessing the ultimate relationship of government gold stocks and the world gold market.

Apart from these various theories and attitudes, it is useful to consider what facts can be applied to and deduced from the holding of government stocks of gold. One obvious fact is that the holding of gold by a government or anyone else involves a cost analogous to the cost of holding any other commodity in inventory. Gold is a non-earning asset and the annual cost of holding it is equivalent to the interest return that could be obtained by exchanging the gold for cash and investing the proceeds or retiring an equal amount of outstanding debt and reducing the applicable interest cost. A more direct way of putting this is that all government gold stocks in effect are financed through borrowed funds.

* The thesis is set forth more completely in a paper by Henderson and Salant, "Market anticipations, government policy, and the price of gold."

A second relevant consideration for government holders of gold is that its nominal monetary value cannot be held constant. The costs of producing gold and the demand of industrial users are the dominant factors in determining the market price and no government gold holders or practical combination of government holders can offset these factors for very long even if there were any rational purpose in doing so.

A third important fact is that government holders of gold stocks are by definition speculators. Any holder of gold, government or private, has an option at any time to exchange his holding for cash. Since there is a cost to holding gold, a decision not to sell implies a speculation that a sale at some future time will yield a return greater than the cost of holding the gold for the interim period -- which may or may not turn out to be true. In the real world, of course, government decisions to sell or not sell gold rarely have any such rational basis. The "speculation" implicit in continuing to hold gold is mainly due to political inertia. An obvious exception is the South African Government which as a matter of policy (and necessity) sells every ounce of gold that can profitably be mined. The reason for the apparent rationality of South African gold policy in contrast to that of other governments is that gold there is of sufficient economic importance to demand the full attention of policy makers. The South Africans simply cannot afford the cost and risk of gold speculation.

A final relevant fact for the gold policy of any government is that no holding of gold -- public or private -- can be considered permanent. This may seem to be stating the obvious but it is a point frequently overlooked by policy officials. The discounted present cost of holding any non-earning asset in perpetuity is infinite. It is, therefore, not a question of whether a given stock of gold is to be sold, but when and under what conditions.

Most of the world's governments hold gold in relatively small quantities which individually would not be sufficient to influence the market

price to any degree whatever their sales policy. A few governments, however, hold gold in large-enough quantities to be a significant or even dominant factor in the world market. The United States is an obvious example.

The United States acquired its stock of gold prior to the early 1950's through purchases from world-wide producers and prior holders of gold. These gold purchases were in essence an act of generosity if not charity to the rest of the world. The dollars acquired could be used to purchase American goods at by definition discount prices, or to invest in American securities. In the 1950's and 1960's the United States redeemed a large share of these dollars through gold sales but as a further charitable act refrained from raising the price. The net result was much the same as if a very large long-term non-interest-bearing gold collateral loan had been granted to the world in general.

At present the United States Government still holds a substantial quantity of gold as a sterile asset, nearly 275 million ounces, equivalent to 7 or 8 years' world production. In an earlier discussion of the interaction of the supply, demand, and price of gold it was concluded that at the current price in real terms (about $125 in 1976 dollars) there is sufficient basic private demand above mining production to absorb the present level of South African, Soviet, and IMF sales plus a small but growing increment from other government stocks. Government gold sales in larger amounts could be expected to drop the real price (but not necessarily the nominal price). If government sales are reduced or held at the present level for a prolonged period of time the real price of gold would gradually rise as basic market demand increases along with rising real income.

The gold stocks held by governments are roughly equal to all remaining below-ground gold reserves on this planet. Evidence indicates that at prices as high as $200 an ounce (in 1976 dollars) gold reserves which could be economically exploited would not be significantly larger

With world industrial consumption approaching 40 million ounces a year and rising, and production rates not expected to increase even if prices were significantly higher, gold is among the few minerals for which alternatives are limited to sales from government or substantial increases in the real price.

Summary of Conclusions

Gold Production

1. Gold is among the world minerals in shortest long-range supply in terms of below-ground reserves extractable at real prices close to present levels.

2. The United States Bureau of Mines estimates that about 1.3 billion ounces (40,000 tons) of gold can economically be extracted from below-ground reserves at prices up to $200 an ounce in 1974 dollars.

3. Gold will be produced only when and if it can be sold in a competitive market at a price that exceeds production costs.

4. Capital resources will be directed into new gold production only if the expected range of future prices indicates the investment will be profitable.

5. Gold production costs everywhere have risen sharply in recent years and on average are currently (mid-1976) close to the market price level. Production costs in future years are expected to rise at a rate at least equal to the world rate of inflation.

6. There is no reasonable prospect of a future rise in world gold production. Mining output has declined over 20 per cent since the historic high of 47 million ounces in 1970 and is expected to at best hold relatively stable over the next decade if there is no further decline in the real price.

Industrial Demand for Gold

1. Industrial demand is by far the major factor in the world gold market, absorbing about 85 per cent of all gold production over the past 30 years.

2. Industrial demand for gold has been highly responsive to changes in the real price, increasing more than threefold from 1950 to 1970 when the real price of gold was in substantial decline, dropping sharply in 1973 and 1974 when the gold price increased, and recovering in 1975 and 1976 when the gold price again declined.

3. Industrial demand for gold is also responsive to changes in real income. All other factors equal, the percent rise in industrial gold will tend to be roughly equal to the percent rise in real income.

4. At the range of gold prices in mid-1976 ($120-$130 per ounce), the industrial demand for gold plus the net off-take in gold coins is approximately in balance with total world gold production outside the Soviet Union plus all sales from official stocks. There is very little acquisition of gold bullion for speculation and investment.

The Supply-Demand Outlook

1. At a constant real price industrial demand for gold and the off-take of gold coins is expected to gradually rise over the next decade. With production at best holding level there should be an increasing margin for gold sales from official stocks. The present annual volume of government gold sales from all sources (about 10 million ounces) might increase to perhaps 25 million ounces in 1985 with no change in the price in constant dollars. A significantly larger volume of government sales over the next decade would probably reduce the real price of gold. If there were no increase in the volume of government gold sales the real price would probably rise.

2. Over the long run the average market price of gold will tend to gradually rise, frequently oscillating within a range of 20 per cent or so limited by average mining production costs on the low side and the choke point of industrial consumers on the high side.

The Gold Market

1. The bulk of world gold production is sold directly into the dealer market, primarily through Zurich and London.

2. Direct marketing arrangements between gold producers and industrial consumers (common in copper, aluminum, platinum, and palladium) are rare.

3. A free gold market with prices fluctuating according to changing supply and demand is a recent historical development dating only from March 18, 1968. Prior to that time the price of gold was fixed or strongly influenced by governments based on monetary considerations.

4. Less than 20 major dealers operating out of London, Zurich, New York, and Frankfurt handle virtually all gold bullion transactions in the world market acting as a point of convergence for buyers and sellers both in space and time.

5. World gold dealers, although they are in constant communication and trade extensively with one another, are highly competitive and work on extremely close buy-sell margins.

6. The major gold dealers are not speculators, and avoid open positions by balancing purchase and sales commitments to the extent possible.

7. Successful gold dealing requires a substantial source of capital and ready access to a supply of low-cost credit. All of the major traders are either banks, owned by banks, or have close working arrangements with banks.

8. The world gold market is new and in many ways different from the markets for other commodities. New trading practices are appearing regularly and the institutional structure of the market is being created by those who are participating in the day-to-day actions.

9. An important new market development is the spread of "leasing" arrangements by which gold formerly held in sterile private or government stocks can be made available for industrial use with a cash return to the continuing owner.

10. The United States is the newest and fastest growing part of the world gold market.

11. For reasons set forth in this report, the United States, with principal operations in New York and Chicago, is likely to become the largest of the world gold trading centers as it is for other commodities.

12. Speculative demand for gold has not been an important market factor except in two brief periods at the end of 1967 and in 1974.

13. Investment demand for gold is only marginal and is largely concentrated in coins. Most of the residual private gold hoard has been accumulated over a long period of time, is widely diffused among many relatively small holdings, and does not constitute a volatile "overhang" to the market.

14. The largest volume of speculative -- as well as industrial -- demand for gold is in the United States. In addition to annual bullion coin purchases of nearly 2 million ounces, American speculative interest in gold is expressed through futures trading on the commodity exchanges.

15. Although trading in gold futures is still only a small fraction of silver futures trading it will probably grow steadily with increasing participation by the speculating public.

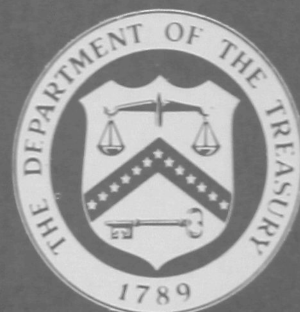
16. The expansion in gold futures trading will tend to dominate the world price and will mean more frequent and larger short-run price movements.

Government Gold Stocks

1. Gold is among the few minerals that could reach a critical supply situation within this century, taking account of available reserves above and below ground.

2. The gold stocks held by governments are roughly equal to all remaining below-ground gold reserves on this planet and ultimately will be essential to supplying world industrial needs.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



REMARKS BY THE HONORABLE GEORGE H. DIXON
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
ROCHESTER CHAPTER, AMERICAN INSTITUTE OF BANKING
ROCHESTER, NEW YORK
SEPTEMBER 11, 1976

Ladies and Gentlemen:

Good evening. What a stroke of good fortune it was to receive your wonderful invitation to be with you this evening; for in addition to this happy Bicentennial occasion, it has meant a chance to come back to the place where I was born, went to school, got in trouble, and learned something of the ways of the world--at P.S. #7, Jefferson Junior High, and John Marshall High School. So I'm especially happy to be here, and I thank you for your invitation.

The American Institute of Banking is an organization which performs an extraordinarily useful function for its members and for the banking industry. You are a large audience, and your presence attests to the support A.I.B. receives from its members and the banks for which they work.

As Congressman Frank Horton noted in his gracious introduction, I have been a member of the Treasury team but a short time. If this were last year, I might well be sitting at a table in an audience much like this, listening to some Washington bureaucrat and recalling the wisdom of Will Rogers, who used to say, "I don't tell jokes--I just watch the government and report the facts."

Now that I'm no longer just watching the government, the wisdom of Will Rogers seems less compelling. It's remarkable what a few months in Washington will do to one's perspective.

This being a Bicentennial celebration, may I share with you a message from a recent event at Treasury, where we, too, are observing our two-hundredth birthday.

Last Wednesday (September 8, 1976), Secretary Simon dedicated a Treasury Time Capsule. It is now sealed and on display in the Cash Room of the Main Treasury Building for the next century, to be opened in the Tricentennial Year 2076 by the future Secretary of the Treasury.

The Capsule contains a message from President Ford to Americans living then, a message from Secretary Simon to his future counterpart, and a selection of contemporary memorabilia.

The theme of Bill Simon's message is inscribed on a bronze plaque marking the location of the Capsule. It says:

> "America's greatest resource is the vibrant heritage of a free people. May we have the wisdom and the vision to nourish this birthright forever."

No message could be more appropriate. American history records, time and again, the contributions made to our society by men and women of vision, determination, energy, and faith in our democratic institutions. Their ideas, brought to fruition, have provided the nucleus for the great businesses and advanced technology of today.

But as we celebrate our Bicentennial, we are also aware of the loss of confidence of our fellow citizens in government and business. As you know, the last three years have been a time of economic anxiety for all of us. We've had the worst inflation in our peacetime history and the worst recession in more than a generation. Too many of our fellow citizens have been out of work. And for the first time since our rise to industrial power, our system has become vulnerable to the political pressures of foreign nations, notably of the OPEC cartel.

If there is a silver lining in this experience--and I think there is--it's that many people are wiser now about our economy than they used to be. As a nation, we have a clearer understanding of fundamental economic concepts and a better appreciation of the complex nature of the problems we face. To those who say that the old principles of frugality and free enterprise no longer work, our answer: It's not our principles that have failed us, but that we have failed to live up to them.

During the 1960's, you may recall there existed a popular belief that we had outgrown the business cycle: the government, it was thought, could simply fine-tine the economy, pulling or pushing on its controls to assure a continually smooth upward ride. We could spend our way to a great society, fight a costly land war in Asia, and solve many other problems--all at the same time. We now have learned, once again, that the economic cycle is still a powerful reality and that no government can guarantee smooth sailing and instant happiness for all its citizens.

We also have a better grasp of the implications of ever-increasing government spending and government deficits. Only

a few years ago, many respected economists thought that government pump-priming during a period of slack was a guaranteed method for safely reviving the economy. Today we know that when government has a very large place in our economic system, as it does now, further deficit spending beyond a certain level produces overheating, a new round of inflation and then contraction.

The role of government in our economy should be a matter of major concern to businesses and to citizens all across our land. It is obvious that as inflation has taken its toll and as government has required more and more money for its own programs, there has been less and less available to private enterprise and individuals for investment and spending purposes. Since 1960 this country has invested less of its Gross National Product in private enterprise than any other major industrialized nation--far less, for instance, than Japan, West Germany, Canada, or France. Over the past decade, the Federal Government has borrowed nearly one-third of a trillion dollars in capital markets, and during that period the interest on our national debt has more than tripled--to almost $38 billion this year, and it's headed quickly to $45 billion.

Over the past fifteen years, government spending has increased dramatically. For 185 years of our history the Federal budget stayed somewhere below the $100 billion mark--usually well below it. Then in 1962, we finally hit $100 billion--and that was only the beginning. Seven years later, the budget broke the $200 billion barrier; four years later, in 1973, it hit the $300 billion mark. And now, in our Bicentennial Year, we have reached the point where the Federal Government is spending over $1 billion a day, and going into debt at the rate of about $1 billion each week.

All of this has happened because over the years we have established by edict, law and common consent some very worthy national goals--goals which we have been working to achieve. They include an expanded Social Security program, benefits to the underprivileged and to veterans, improved housing for our people, more education and training, and protection of the environment. In Fiscal Year 1977, existing laws have mandated payments for these programs at about $170 billion--more than the entire federal budget eight years ago--which is to suggest that we have bitten off more than we can chew, that we've been guilty of trying to cram four pounds of commitments into a three-pound bag. While we recognize the value of these programs, we also learn that an effective social system is dependent upon a stable, healthy economic system. We learn that Washington cannot solve all of our problems at the same time. Indeed, in trying to do so, government itself has created some national problems--in the form of government spending, government deficits, government bureaucracy, and government regulation.

There is now widespread agreement within the business community and even in Washington that in order to create almost 20 million jobs during the coming decade, and to meet other economic goals such as self-sufficiency in energy, we must turn our economic system away from its heavy emphasis upon consumption and government spending toward a greater stress upon private savings and investment. Our presently estimated need for $4-1/2 trillion in new investment in the next decade is formidable by any standard, but it can be found if we can just open the capital investment door a little wider.

We are now in the midst of a healthy economic recovery. Admittedly, what a few weeks ago was a romping, robust surge, has slowed somewhat. But recovery it is. And it carries with it solid grounds for believing that if reasonably good decisions are made and implemented, we have every reason to expect that expansion will continue throughout 1976 and 1977. As we experience this recovery, we owe some thanks to President Ford's even-handed economic policies and forceful vetoes of expensive spending bills that might have thrown us into 2-digit inflation again.

I've already suggested that if the future health of the economy is to be assured, positive steps must be taken to improve our overall business environment. There are four key areas where changes are essential, three of them relating to government policies:

First, we must achieve a greater public understanding of basic economic fundamentals. In the early 1960's, after serving as Secretary of Commerce, Luther Hodges remarked, "If ignorance paid dividends, most Americans would make a fortune out of what they don't know about economics."

The sad truth is that not enough Americans know the fundamentals about our economy--about profits, capital investment, productivity, the real sources of jobs and higher living standards. The misunderstandings about socialism and capitalism that exist in our schools today border on a national scandal. "How," someone has asked, "have we managed to raise a whole generation of young people who do not know how their parents make a living?"

In my view, those who practice free enterprise should accept more of the responsibility for getting the message across to the American people. It is a battle where victory requires the application of steady, persistent effort, probably over a generation. Actually, American economic fundamentals are not mysterious; the basic principles are really quite simple. For example,

-- What we produce is the result, and only the result, of our labor.

-- We cannot consume more than we produce.

-- The product that government gives to some of us, it must take away from others.

-- If government takes too much away from those among us who produce and gives it to those who don't, our capacity to produce will diminish, and everyone--non-producer as well as producer, poor as well as rich, senior citizen and urban youth--everyone--will lose.

-- A central government, directing our every activity, insinuating itself into every nook and cranny of our society, trying by fiat to cure every failure and ill of mankind, and borrowing from the future to pay for today, cannot succeed, nor can it ever be even the ghost of a substitute for the countless individual economic deicsions, freely made by a free society.

-- And finally, to say it once more, but not too many times: "There still ain't no such thing as a free lunch."

Second, the government must put its own financial house in order. The excesses of the past decade can be continued only at the expense of price stability and a healthy economy. In the past two years alone, federal outlays have grown by over forty percent.

We have had an unprecedented string of budget deficits in sixteen out of the last seventeen years. This record must be changed. Over time our budget must be balanced, or preferably be in surplus.

In the current fiscal year, four out of every five dollars borrowed in the securities market will be soaked up by the government. That dominance must end.

The third key area in which changes are essential is the federal tax structure. It must be altered, I believe, to encourage greater investment.

In his State of the Union message, the President in January outlined reductions in individual and corporate income taxes, plus a series of tax incentives to encourage investments in America's future. His tax measures were coupled with a budget proposal to reduce federal spending. It appears that Congress will enact some of the President's tax proposals regarding tax cuts and investment incentives, but not all of them; nor is Congress adopting his proposed reduction in government spending.

Adoption of these proposals is not really enough. What we really need is a total restructuring of the federal tax system. In trying over the years to develop a tax system that is both equitable and fair, we have created a monster that defies understanding. Two out of every five taxpayers now seek outside help to complete their tax forms. The exceptions and complexities written into the tax laws make it impossible to assess its fairness--not even the IRS understands it consistently. And over the last seven years during an inflationary period with greater government spending, the burden on taxpayers has increased faster than any other item in the American family budget. The Treasury Department is currently working on a proposal that would not only simplify the federal tax system but would truly reform our tax structure.

Finally, a return of greater decision-making power to private hands would ultimately serve to allocate resources more efficiently and enable our economy to allocate capital resources more effectively. One important step in accomplishing this goal is to decrease the ever-increasing encroachment of government into our personal and professional lives through federal regulation and reporting requirements. Some regulations, of course, are necessary--but others are obsolete, wasteful, and destructive of initiative. As President Ford has repeatedly said, those regulations that no longer serve a useful purpose should be eliminated, before we all strangle in our own red tape.

Bureaucratic regulations are no joke, of course, to the businessman who must conform to them. But I do know that 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 he would have to follow. After the meeting ended, 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."

As you may know, the Administration and the Congress have also been working on some additional regulatory subjects that affect the banking industry directly. The next two years may well produce legislative initiatives which will materially alter the operations and dynamics of banking. Three important subjects, all interrelated, are under active consideration by the Banking Committees of the Congress. These are financial institutions reform, regulatory consolidation, and electronic banking.

In the first instance, the Administration has been working for several years on a specific legislative proposal titled the "Financial Institutions Act." This Act would substantially increase competition between various types of financial institutions. The increased competition and reduction of existing

regulatory and statutory barriers would permit eventual elimination of Regulation Q interest rate ceilings. These have been detrimental to the consumer during periods of high interest rates and have been ineffective in addressing the problem of disintermediation. The President's proposal for financial institution reform failed this year, even though for awhile it appeared that it would pass. But the subject has never been a partisan matter, and we fully expect the legislation to emerge from the next session of Congress. When that occurs, the subject may be expanded to include discussion of other issues, like the payment of interest on demand deposits, the abolition of state usury laws, the liberalization of the McFadden Act, and the authorization of variable rate mortgages for federally-chartered institutions.

There have also been a number of proposals to consolidate or otherwise change the functioning of the bank regulatory system. Many of those proposals would lead to increased regulation and to a loss of independence on the part of the Federal Reserve Board and the other banking agencies. I assure you that the possibility of increased regulation under the guise of regulatory reform is very real. Yet a major thrust of the Ford Administration has been to eliminate or to simplify the regulatory process--not to add to it.

As you know, also, the National Commission on Electronic Fund Transfer is studying the implications of a "checkless society." Its final report, due in October of next year, may result in setting ground rules for the further application of this technology. The Department of the Treasury is in the forefront of this change, having embarked upon a nationwide program of direct deposits, providing cost benefits and convenience both to banks and to recipients of government payments.

And so, leaving the issue of government regulation, let me return to my opening message:

> "America's greatest resource is the vibrant heritage of a free people. May we have the wisdom and the vision to nourish this birth-right forever."

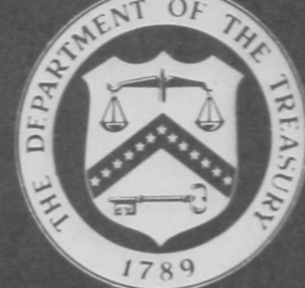
As we enter our third century, we do have the wisdom and the vision to successfully pursue our challenges, to build on our heritage and to provide hope and inspiration for free people everywhere, certainly here in Rochester.

Will Rogers once commented about that great chewing gum entrepreneur, P. K. Wrigley. He said, "All Wrigley had was an idea. He saw that American jaws always had to wag, so he gave them something to wag against."

My jaws wagged long enough. Thank you, ladies and gentlemen, for the opportunity to be with you tonight. I wish you success in your year's A.I.B. activities.

oOo

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



Contact: J.C. Davenport
Extension: 2951
September 22, 1976

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES FINAL DETERMINATION OF SALES AT LESS THAN FAIR VALUE WITH RESPECT TO MELAMINE IN CRYSTAL FORM FROM JAPAN

Under Secretary of the Treasury Jerry Thomas announced today that melamine in crystal form from Japan is being or is likely to be sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Notice of this determination will be published in the Federal Register of September 23, 1976.

The case has been referred to the U.S. 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 injury determination, dumping duties will be assessed on all entries of the subject merchandise from Japan where dumping margins exist.

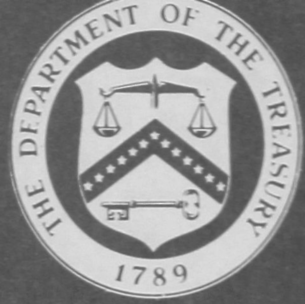
A "Withholding of Appraisement Notice" published in the Federal Register of June 18, 1976 stated that there was reasonable cause to believe or suspect that there were sales of the subject merchandise from Japan at less than fair value. Pursuant to this notice, interested persons were afforded the opportunity to present oral and written views prior to the final determination in this case.

Imports of the subject merchandise from Japan were valued at approximately $1.4 million during calendar year 1975.

* * *

WS 1096

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



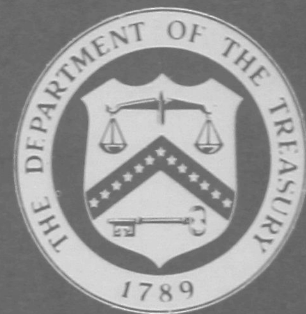
September 22, 1976

STATEMENT BY SECRETARY OF THE TREASURY
WILLIAM E. SIMON
ON THE DEATH OF MR. ORLANDO LETELIER DEL SOLAR

The Treasury Department learned with deep regret of the tragic death of Mr. Orlando Letelier del Solar. Secretary Simon said, "Mr. Letelier, a former Ambassador to the U.S. from Chile and previously a senior official of the Inter-American Development Bank, was the victim of a senseless and brutal act yesterday morning. I would like to express my deep concern over his tragic death and extend my deepest sympathies to his wife and family."

o0o

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



Contact: J.C. Davenport
Extension: 2951
September 22, 1976

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES FINAL DETERMINATION OF SALES AT LESS THAN FAIR VALUE WITH RESPECT TO MELAMINE IN CRYSTAL FORM FROM JAPAN

Under Secretary of the Treasury Jerry Thomas announced today that melamine in crystal form from Japan is being or is likely to be sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Notice of this determination will be published in the Federal Register of September 23, 1976.

The case has been referred to the U.S. 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 injury determination, dumping duties will be assessed on all entries of the subject merchandise from Japan where dumping margins exist.

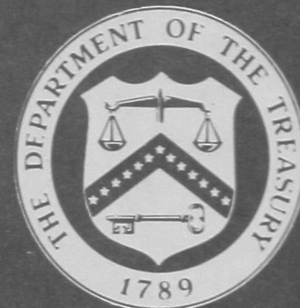
A "Withholding of Appraisement Notice" published in the Federal Register of June 18, 1976 stated that there was reasonable cause to believe or suspect that there were sales of the subject merchandise from Japan at less than fair value. Pursuant to this notice, interested persons were afforded the opportunity to present oral and written views prior to the final determination in this case.

Imports of the subject merchandise from Japan were valued at approximately $1.4 million during calendar year 1975.

* * *

WS 1096

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE September 23, 1976

ARTHUR BURNS HONORED AT TREASURY DEPARTMENT

Treasury Secretary William E. Simon today presented the Alexander Hamilton Award, Treasury's highest award, to Dr. Arthur F. Burns, Chairman of the Board of Governors of the Federal Reserve Board.

In presenting the award, Secretary Simon lauded Dr. Burns' "legendary stamina. . . his courage . . . and his dedication in placing the health and survival of this nation above all other concerns." Secretary Simon said: "In the whole history of the United States, I doubt that there has ever been a closer, more rewarding personal and professional relationship between the Secretary of the Treasury and the Chairman of the Federal Reserve Board. The relations between us and between the members of our respective departments have not just been cordial, they have been warm."

Alluding to recent public suggestions by some "that it would be a good idea to give the White House or the Congress more control over the nation's money supply," Secretary Simon said; "I just want to say that I think such proposals are dangerous, and I agree completely with Chairman Burns' recent statement that " 'such a step would create a potential for political abuse on a larger scale than we have yet seen.' "

The Alexander Hamilton Award, established in 1955 in honor of the first Secretary of the Treasury, consists of a gold medal, a certificate signed by the Treasury Secretary which is enclosed in a blue padded Morocco leather folder with white silk lining, and a miniature Treasury flag.

It is usually conferred by the Secretary of the Treasury on highest officials of the Department for "outstanding and unusual leadership" in the work of the Treasury Department. The award to Dr. Burns was only the second given to a non-Treasury official. In January, 1970, then Treasury Secretary David M. Kennedy presented the award to William McChesney Martin, Jr., Dr. Burns' predecessor at the Federal Reserve Board.

oOo

WS-1098

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR IMMEDIATE RELEASE September 24, 1976

Arbitrage Profit in State and Local Refunding Bonds

The Department of the Treasury announced today its intention to propose regulations designed to limit the opportunity for arbitrage profits in connection with the advance refunding of tax-exempt securities. Such regulations will apply to any refunding obligations delivered after 5:00 p.m. E.D.T. September 24, 1976.

Background

In 1969, Congress enacted Section 103(d) of the Internal Revenue Code. Section 103(d) recognizes that under many circumstances advance refundings can be a legitimate tool of municipal finance. At the same time, however, Congress sought to prevent advance refundings which generate arbitrage profits -- that is, profits based upon the difference between the cost to the issuer of the advance refunding issue and the returns available from investment of the proceeds in taxable issues pending retirement of the bonds to be refunded -- and conferred upon the Treasury broad authority to promulgate regulations carrying out the purpose of this provision.

Section 103(d) and regulations promulgated thereunder have been successful in preventing issuers from directly realizing arbitrage profits on advance refunding issues. Recently, however, cases have occurred where an issuer which cannot directly obtain the benefit of arbitrage enters into an arrangement or understanding to transfer the profit to a pension fund, charity or similar party. Alternatively, such a party may be selected to receive the profit by providing "tailored" securities to the issuer. In these transactions the issuer is retaining rights or reasonably expects benefits which are not consistent with Section 103(d).

WS-1097

However, the existing regulations have not prevented opportunities for arbitrage profits in other circumstances. While the specific devices vary from transaction to transaction, the principal device to generate such profits is a sale of U.S. Government securities to the issuer at a premium sufficiently high to reduce the yield on the securities to a level permissible under existing law. In the Department's view, such transactions should not be permitted under Section 103(d), and the forthcoming regulations are designed to prevent their future occurrence.

The Department is taking action at this time not only to carry out the statutory purpose in light of these developing circumstances, but also to deal with a potentially serious threat to the viability of the tax-exempt market. In the past year, various Department spokesmen have expressed concern over the possibility of supply/demand imbalances in the market and the potential effect of such imbalances on the rates state and local governments will be required to pay in borrowing for legitimate public purposes. The potentially large increase in the demand for tax-exempt credit generated by the desire for arbitrage profits is accordingly of great concern. In the Department's view, the regulations announced today should contribute to the continued soundness of the municipal bond market and insure a level of borrowing costs uninflated by extraneous demands for credit.

Description of Regulations to be Proposed

As indicated above, both the statute itself and the Department's concern for conditions in the tax-exempt bond market warrant the promulgation of regulations designed to prevent advance refunding issues which generate arbitrage profits. The regulations, in substance, will include the following general additions to the rules for computing the yield on investment of the proceeds of advance refunding obligations:

-- The yield of acquired obligations that are not acquired directly from the issuer of such obligations must be computed by using the market price of the obligations, as determined by reference to an established market; where there is no established market for such obligations, the refunding obligations will be presumed to be arbitrage bonds;

-- If all or part of the acquired obligations are acquired directly from the issuer of such obligations, and are secured by any underlying securities or obligations that produce a higher yield (based on current market

price) than the yield of the refunding issue, the refunding obligations will be presumed to be arbitrage bonds; and

-- The administrative costs of the refunding issue and the administrative costs of the acquired obligations that are taken into account as a premium or discount for purposes of computing yield shall be taken into account at their present value using the yield of the refunding issue as the discount factor.

The Department recognizes that, to the extent an issuer's borrowing costs for the refunding issue are below the rates prevailing in the market for Treasury obligations needed to fund the escrow, it is unlikely that the issuer will be able to purchase securities from private parties which satisfy the requirements of the arbitrage regulations. The Department will continue to make directly available to issuers of tax-exempt securities Treasury obligations specially designed to meet the requirements of these regulations. In connection with the release of the proposed regulations described in this announcement, new rules describing the procedure for the purchase of such Treasury securities will also be announced.

o0o

he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR RELEASE AT 4:00 P.M.

September 24, 1976

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 $6,000 million, or thereabouts, to be issued October 7, 1976, as follows:

91-day bills (to maturity date) in the amount of $2,500 million, or thereabouts, representing an additional amount of bills dated July 8, 1976, and to mature January 6, 1977 (CUSIP No. 912793 D8 6), originally issued in the amount of $3,507 million, the additional and original bills to be freely interchangeable.

182-day bills, for $3,500 million, or thereabouts, to be dated October 7, 1976, and to mature April 7, 1977 (CUSIP No. 912793 F5 0).

The bills will be issued for cash and in exchange for Treasury bills maturing October 7, 1976, outstanding in the amount of $6,007 million, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,508 million. 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, October 1, 1976. 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

WS-1099

(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.

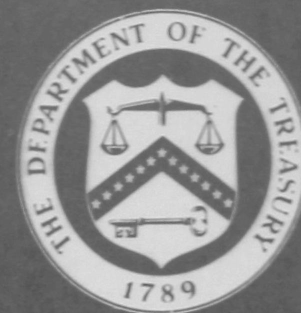
Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, 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 $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 October 7, 1976, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 7, 1976. 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.

oOo

he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE

REMARKS BY J. ROBERT VASTINE
DEPUTY ASSISTANT SECRETARY OF THE TREASURY
FOR TRADE AND RAW MATERIALS POLICY
BEFORE
THE NATIONAL FOREIGN TRADE COUNCIL
BALANCE OF PAYMENTS GROUP
NEW YORK, NEW YORK
September 28, 1976

U.S. Commodity Policy Post-UNCTAD

World trade in commodities continues to be a central concern of the North-South dialogue. The debate about appropriate international commodity policies is a test of the potential for cooperation among developed and developing countries.

I would like to discuss this afternoon the major aspects of U.S. commodity policy in light of what we believe is in the best economic interests of both the developing and developed countries. I will outline first the economic principles we consistently attempt to apply to our relations with the developing countries and then summarize the initiatives which we have made to date in line with these principles. I will then turn to the future work program on commodities resulting from UNCTAD IV. Finally, I would like to comment briefly on the subject of economic stockpiling, which is receiving increased attention as a response to the insecurity of supply that many see arising out of the effort of producer associations to control prices and supplies.

Principles and Objectives of U.S. Commodity Policy

Over the past two years an intensive interagency effort has been undertaken in the United States to review North-South economic issues and determine U.S. policy. In that review we have been guided by a series of fundamental principles:

First, economic growth will ultimately depend on the effort and the skill with which developing countries utilize their own human and material resources. The industrialized countries can, through constructive trade, technical and financial assistance policies, significantly help developing countries. But this assistance will only be of lasting value when combined with sound internal policies.

Second, investment is the central propellant behind economic development. The international supply of investment capital is limited. Developing countries should attract the capital they need by improving conditions for private investment.

Third, the operation of free and fair markets is the most efficient way to increase production, improve efficiency, and stimulate growth. We should try to improve the efficiency of international markets, not further impair their operation by adding new restraints and controls -- either governmental or private.

Finally, in addressing the problems of the developing countries, we must avoid facile generalization. Each developing country, each commodity, each industry, is unique. The debt or balance-of-payments problem of a developing country, the market structure of a specific commodity, the investment requirements of a particular industry, must be dealt with on a case-by-case basis.

In line with these principles, we have repeatedly made clear that we will join with developing countries in seeking to:

- facilitate the flow of sufficient investment to promote resource development in developing countries;
- stabilize the overall export earnings of developing nations, particularly those that rely on exports of a few commodities;
- improve, in the Multilateral Trade Negotiations, access to markets for processed products of developing countries while assuring consumers reliability of supply; and

- improve the conditions of trade and investment in individual commodities and moderate excessive price fluctuations, based on a case-by-case analysis of the conditions of investment, production and the market in each commodity.

We have already taken a number of steps to help implement these goals:

On investment, we have made several important proposals. The most notable of these is to create an International Resource Bank for the purpose of facilitating direct private investment in mineral and energy extraction projects in the developing countries. The U.S. is pursuing our proposal aggressively in international forums. We have also proposed an increase of $480 million in the subscribed capital of the World Bank's International Finance Corporation, which would in effect quadruple its ability to stimulate more private investment in the developing countries. Finally, in order to encourage private portfolio flows to the developing countries, the U.S. suggested the creation of an International Investment Trust. The IFC is consulting with other governments in order to elaborate on this proposal.

On export earnings stabilization, the U.S. and other IMF members have implemented a major proposal to liberalize the provisions of the existing IMF Compensatory Finance Facility and to set aside part of the new IMF Trust Fund for concessionary loans or grants to the poorest developing countries that are hurt by earnings fluctuations related to commodities. The newly revised IMF Compensatory Finance Facility has drawings already authorized this year totaling nearly SDR 1.7 billion, compared with a previous maximum annual use of SDR 300 million and a total cumulative use of SDR 1.2 billion during the period 1966-1975. Drawings by developing countries this year have amounted to SDR 1.1 billion.

On market access, we believe that we have already demonstrated our sincerity. The President proclaimed the U.S. generalized system of tariff preferences on January 1st this year.

It has a broader product and trade coverage than any other country's: including 2700 products from 130 eligible countries, valued at $2.5 billion in 1975. We have proposed that special attention be given in the MTN to tariff escalation and we have agreed to give special treatment to LDC's in most areas of the negotiations.

Finally, with respect to specific commodity markets, the U.S. urged the creation of producer-consumer forums for those key commodities where such institutions did not exist. We are participating now in discussions we hope will result in a permanent producer-consumer forum for copper. We consistently reaffirmed our willingness to discuss with producers and consumers of any commodity ways in which their markets can be expanded and their earnings stability can be enhanced. Thus, we have participated in negotiations on and have signed the Third International Coffee Agreement and the Fifth International Tin Agreement.

During the coming months, the U.S. will be very active in a number of forums discussing commodity issues. At the Conference on International Economic Cooperation (CIEC) in Paris, discussions on commodities and other issues will proceed through the fall. The most extensive commodity work will, however, take place in the forum of the UN Conference on Trade and Development (UNCTAD). At the recent "UNCTAD IV" meeting in Nairobi last May, a resolution was agreed that outlined an intensive work program on commodities over the next year and a half. As a result of this resolution, there are two major international exercises which could have a profound effect on international markets.

UNCTAD Commodity Conferences

First, the UNCTAD resolution calls for a series of conferences on 18 specific commodities, leading, where agreed, to negotiations for formal commodity agreements or other action. This work program must be completed by the end of 1978. The U.S. has announced its intention to participate in this exercise but with important qualifications.

As we stated at Nairobi, the U.S. intends to treat these consultations as opportunities for discussions between producers and consumers about the actual problems of particular commodities. We will want to demonstrate our frequently-stated intention to join creatively and constructively in efforts to improve and strengthen individual commodity markets. Where problems are identified we will work with other participants to determine what measures might be appropriate to solve them. We expect that such analyses will reveal ways to strengthen markets to the benefit of both producers and consumers.

In some instances these conferences may demonstrate that formal commodity agreements may make sense. In these cases the U.S. will join other producers and consumers in such negotiations.

The commodity consultations have begun just this week in Geneva with a session devoted to copper. The immediate objective of these consultations should be to provide a better understanding of copper markets, and to lay the groundwork for creation of a producer-consumer forum, as we have proposed. We very much hope that this discussion does not become politicized and that the chance to have a thorough, constructive discussion of this important commodity is not lost.

A Common Fund to Finance Buffer Stocks

Second, UNCTAD IV also agreed that preparatory meetings would be held, leading by March 1977 to a negotiating conference on the creation of a Common Fund to finance buffer stocks. The U.S. also expressed serious reservations about this part of the resolution. We have taken the position that a Common Fund is not at all needed, and will not work. We believe that it is first necessary to determine whether price stabilization for a particular commodity is needed and whether a buffer stock would be an appropriate technique. Then decisions about financing can be made. Therefore, although the U.S. will participate in the preliminary discussions on a Common Fund, we will not commit ourselves to participate in future negotiations for such a fund.

A major part of the problem we have with the proposed Common Fund is that it would involve an advance commitment to funding and thus would encourage the establishment of unnecessary buffer stocks. If in the process of our discussions of the problems of individual commodities we find a buffer stock is necessary to make an agreement effective, we believe that a number of alternative means for financing those buffer stocks are available, depending on the characteristics of the market and the specific commodity for which a buffer stock is discussed.

We conclude that technical problems or the expense of a buffer stock large enough to have a market impact make buffer stocks dubious for most of the 18 commodities. The two for which buffer stocks already exist do not seem to require additional funding. Thus, the case for a Common Fund seems to us very weak. It seems plainly wasteful to set aside some billions of dollars of the world's scarce capital for this questionable purpose, when this capital is so badly needed to help promote basic economic development objectives.

Economic Stockpiles

Concern about security of supplies of key international commodities in which the U.S. is substantially import-dependent has resulted in proposals for economic -- as distinct from strategic -- stockpiles. The purpose of such a stockpile is not to moderate price fluctuations, as buffer stocks theoretically aim to do: its purpose would be to insure against the risk of a supply interruption of a non-strategic nature such as an embargo or a natural disaster. The major concerns we have with such stockpiles have to do with their feasibility: the timing of accumulations and disposals of stocks and the determination of an appropriate size stock.

The first concern stems partly from the difficulty decision makers have in identifying probable future shortages correctly and far enough in advance to accumulate the needed stocks without unduly disrupting the market. If buying and selling of the material does not coincide with excesses and shortages then economic stockpiling can lead to disruption of commodity markets. Our experience with U.S. Government purchases of tin during the Korean conflict, which coincided with major increases in private purchases -- in both cases to guard against a possible cutoff of Southeast Asian supply -- clearly demonstrates the disruptive market impact of government intervention.

The private sector may be far more capable than the U.S. Government in identifying potential shortages, even shortages caused by political factors. Private companies have already reacted to the potential difficulty in chrome supply from Rhodesia by accumulating inventories of 370,000 tons of chrome, enough to satisfy U.S. consumption needs for nearly a year.

We do not believe there has been adequate analysis of the appropriate sizes of stocks thus far, or of the list of commodities that would be considered for contingency reserves. Though we have nearly a hundred materials in our own strategic stockpile to supply our industrial base during a war, there is great uncertainty about the amount of each material needed. Indeed, the Administration has been unable to dispose of excess materials in those stockpiles because it has not been able to reach agreement with Congress on the amount of the excess. A recent review by the Administration identified three critical commodities where there is some potential for interruption of foreign supply that might damage U.S. industry -- bauxite-aluminum, chrome, and the platinum group. However, it is also argued that the U.S. should stockpile cobalt, mercury, tungsten and nickel to guard against shortages.

In sum, we believe that economic stockpiling requires further analysis, including the timing of purchases and sales, the commodities to be stocked, and the size and cost of the stockpiles for each individual commodity. We should concentrate on assessing

the adequacy of stocks held by private industry. The National Commission on Supplies and Shortages is studying this problem among others. Until this analysis is complete we do not believe it would be in the United States interest to proceed legislatively or otherwise to establish economic stockpiles in addition to our strategic stockpiling program. Here as in our broader international commodity policy, we prefer to rely on private markets. Private industry has shown an ability to build stocks of imported raw materials as a contingency against supply disruption. Certainly, we do not want to create a disincentive for such private holdings by shifting the burden of carrying stocks mainly onto the Federal Government.

Conclusion

The U.S. Government -- the Executive Branch and the Congress -- has been engaged in a major effort to come to grips with the commodity questions posed by the developing countries. We agree with their objectives of promoting rapid, stable growth, stabilizing earnings, and diversifying their economies. We cannot fully agree with some of the solutions proposed in UNCTAD and other North-South forums. We have tried not to reject such ideas out of hand, but have analyzed them and proposed what we believe to be a workable and sound comprehensive approach to commodity policy. We believe our proposal will contribute substantially toward meeting the objectives of the developing countries while preserving the virtues of free international markets.

LIST OF EIGHTEEN
UNCTAD IV COMMODITIES

Commodity	Principal Exporting Countries	Existing International Forums
Bananas	Ecuador, Costa Rica, Honduras, Panama, Philippines	Union of Banana Exporting Countries (UPEB)*; FAO Intergovernmental Group on Bananas
Bauxite	Jamaica, Australia, Guyana	International Bauxite Association (IBA)*
Cocoa	Ghana, Nigeria, Ivory Coast, Cameroon	International Cocoa Organization (ICCO); FAO Intergovernmental Group on Cocoa
Coffee	Brazil, Columbia, Ivory Coast, Guatemala, Mexico	International Coffee Organizaiton (ICO)
Copper	Chile, Peru, Canada	Intergovernmental Council of Copper Exporting Counties (CIPEC)*/UNCTAD Preparatory Meeting-Fall 1976
Cotton	U.S., U.A.R, Mexico, Turkey	International Cotton Advisory Committee
Hard Fibers & Products	Brazil, Tanzania, Mexico	FAO Intergovernmental Group on Hard Fibers/UNCTAD Preparatory Meeting-Fall 1976
Iron Ore	Australia, Brazil, India, Venezuela, USSR	Association of Iron Ore Exporting Countries (AIOEC)*
Jute & Products	Bangladesh, India, Thailand	FAO Intergovernmental Group on Jute, Kenaf, and Allied Fibres /UNCTAD Preparatory Meeting-Fall 1976

Commodity	Principal Exporting Countries	Existing International Forums
Manganese	Brazil, Gabon	--
Meat	Australia, Argentina, New Zealand	FAO Intergovernmental Group on Meat
Phosphates	Morocco, U.S., USSR, Mauritania	--
Natural Rubber	Malaysia, Indonesia, Thailand, Sri Lanka	International Rubber Study Group (IRSG); Association of Natural Rubber Producing Countries (ANRPC)*/UNCTAD Preparatory Meeting-Fall 1976
Sugar	Cuba, Brazil, Philippines, Dominican Republic, Australia, Japan, USSR, Canada	International Sugar Organization
Tea	India, Sri Lanka, Kenya, Uganda	FAO Intergovernmental Group on Tea
Tin	Australia, Bolivia, Indonesia, Malaysia, Nigeria, Thailand, Zaire	International Tin Council
Tropical Timber	Philippines, Malaysia, Indonesia	FAO Committee on Forestry
Vegetable Oils	U.S., Brazil, Malaysia, Australia	FAO Intergovernmental Group on Oilseeds, Oils, and Fats

* Producer association only

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR IMMEDIATE RELEASE September 27, 1976

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2,300 million of 13-week Treasury bills and for $3,400 million of 26-week Treasury bills, both series to be issued on September 30, 1976, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing December 30, 1976			26-week bills maturing March 31, 1977		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.724	5.048%	5.18%	97.322	5.297%	5.52%
Low	98.716	5.080%	5.22%	97.305	5.331%	5.55%
Average	98.718	5.072%	5.21%	97.308	5.325%	5.55%

Tenders at the low price for the 13-week bills were allotted 61%.
Tenders at the low price for the 26-week bills were allotted 87%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 68,665,000	$ 50,570,000	$ 41,475,000	$ 11,475,000
New York	3,325,305,000	1,873,805,000	5,439,980,000	2,968,490,000
Philadelphia	23,375,000	23,375,000	11,010,000	8,945,000
Cleveland	79,245,000	41,410,000	180,710,000	160,210,000
Richmond	27,365,000	19,585,000	50,250,000	11,090,000
Atlanta	30,800,000	30,300,000	15,805,000	15,305,000
Chicago	276,330,000	101,330,000	276,660,000	53,660,000
St. Louis	55,215,000	31,045,000	36,560,000	13,560,000
Minneapolis	32,050,000	19,050,000	61,460,000	38,460,000
Kansas City	35,500,000	29,175,000	26,330,000	22,830,000
Dallas	33,865,000	19,865,000	12,645,000	10,645,000
San Francisco	287,050,000	60,710,000	408,780,000	87,520,000
TOTALS	$4,274,765,000	$2,300,220,000 a/	$6,561,665,000	$3,402,190,000 b/

a/ Includes $336,685,000 noncompetitive tenders from the public.
b/ Includes $163,750,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

WS-1100

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR IMMEDIATE RELEASE September 28, 1976

John J. Niehenke
Appointed Special Assistant for Debt Management

Treasury Secretary William E. Simon administered the oath of office on September 27, 1976, to John J. Niehenke as Special Assistant to the Secretary for Debt Management.

Prior to his appointment with the Treasury Department, Mr. Niehenke, 31, was Vice President, Bank Investments, at the Girard Trust Bank, Philadelphia, Pennsylvania.

In his Treasury post, Mr. Niehenke serves as a principal adviser to Secretary Simon, Under Secretary Edwin H. Yeo, III, and Assistant Secretary Robert A. Gerard on matters relating to the Government securities markets and to the satisfaction of the Federal Government's financial needs. He is a key participant in the Treasury group responsible for establishing the Government's borrowing strategy.

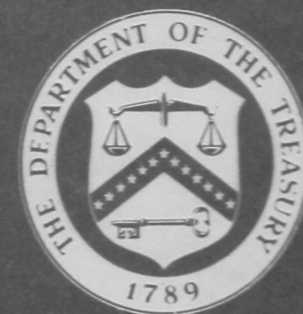
At the swearing-in ceremony, Secretary Simon stated, "We are most fortunate to have John Niehenke with us. He is extremely skilled in the workings of the Government securities market and has earned the admiration and respect of his colleagues, both in the public and the private sectors."

Mr. Niehenke is a cum laude graduate of St. Joseph's College of Philadelphia and has done graduate work in finance at Temple University. Mr. Niehenke, his wife, the former Kathleen M. Nice, and their two sons reside in Silver Spring, Maryland.

oOo

WS-1101

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



September 28, 1976

The Treasury Department has learned of the death of Henry F. Lee, 41, an international economist for Treasury Department and U.S. Alternate Director to the Asian Development Bank in Manila. Mr. Lee's body was found Friday with wreckage of a light plane missing 12 days on a mountain slope near Manila. Seven other persons were aboard. There were no survivors. Severe weather conditions and the mountainous terrain hampered search for the plane.

On learning of this Secretary Simon said: "Henry Lee had an outstanding career at Treasury. We all are truly saddened by his tragic loss, and I wish to express my deepest sympathy to his wife and family."

Mr. Lee received BSFS and MA degrees from Georgetown University, and his Ph.D from the University of Pennsylvania. From 1974 to 1975, he served in Treasury as Director of the Policy Program Office, and from 1972 to 1974 as Director of the Bilateral Relations Program under the Assistant Secretary for International Affairs. Earlier, Mr. Lee was an international economist with the Agency for International Development, and with the Division of International Finance of the Board of Governors of the Federal Reserve System.

A native of Anaheim, California, he received the Gold Key Society award of Georgetown University and was president of the student body of the Foreign Service School in 1954. From 1958 to 1963, he was an instructor at the University of Pennsylvania. He served as a Warrant Officer, JG in Tokyo, Japan from 1946 to 1951.

Mr. Lee is survived by his wife, Ellen Sohyang Kim Lee; three children, Henry Michael, Stephen Farrow, and Laura Kim; his mother Mary K.S. Paik Lee of Los Angeles, California; and two brothers, Allan Paik Lee of San Francisco, and Anthony Lee of Los Angeles. The family home was at Rock Creek Forest, Maryland.

oOo

WS-1102

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR IMMEDIATE RELEASE September 28, 1976

TREASURY BILL AUCTIONS

Beginning with the weekly auction of October 8, 1976, which will be announced October 1, the Department of the Treasury will extend to individuals the opportunity to submit competitive and noncompetitive tenders for Treasury bills directly to the Bureau of the Public Debt, Room 2134, Main Treasury, Washington, D. C. 20226.

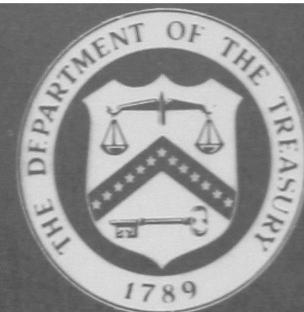
Tenders and appropriate payment will be received by the Treasury until 1:30 p.m. on auction dates. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. The forms for submitting tenders may be obtained from Room 2134.

Payment for bills may be made by check, in maturing bills or in cash. Checks submitted as payment must be certified or issued by a bank, savings and loan association or similar financial institution. Checks must be made payable to the United States Treasury for the full face amount of bills bid for and must accompany the tender.

# # #

WS-1103

'he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE

REMARKS BY J. ROBERT VASTINE
DEPUTY ASSISTANT SECRETARY OF THE TREASURY
FOR TRADE AND RAW MATERIALS POLICY
BEFORE
THE NATIONAL FOREIGN TRADE COUNCIL
BALANCE OF PAYMENTS GROUP
NEW YORK, NEW YORK
September 28, 1976

U.S. Commodity Policy Post-UNCTAD

World trade in commodities continues to be a central concern of the North-South dialogue. The debate about appropriate international commodity policies is a test of the potential for cooperation among developed and developing countries.

I would like to discuss this afternoon the major aspects of U.S. commodity policy in light of what we believe is in the best economic interests of both the developing and developed countries. I will outline first the economic principles we consistently attempt to apply to our relations with the developing countries and then summarize the initiatives which we have made to date in line with these principles. I will then turn to the future work program on commodities resulting from UNCTAD IV. Finally, I would like to comment briefly on the subject of economic stockpiling, which is receiving increased attention as a response to the insecurity of supply that many see arising out of the effort of producer associations to control prices and supplies.

Principles and Objectives of U.S. Commodity Policy

Over the past two years an intensive interagency effort has been undertaken in the United States to review North-South economic issues and determine U.S. policy. In that review we have been guided by a series of fundamental principles:

WS-1104

First, economic growth will ultimately depend on the effort and the skill with which developing countries utilize their own human and material resources. The industrialized countries can, through constructive trade, technical and financial assistance policies, significantly help developing countries. But this assistance will only be of lasting value when combined with sound internal policies.

Second, investment is the central propellant behind economic development. The international supply of investment capital is limited. Developing countries should attract the capital they need by improving conditions for private investment.

Third, the operation of free and fair markets is the most efficient way to increase production, improve efficiency, and stimulate growth. We should try to improve the efficiency of international markets, not further impair their operation by adding new restraints and controls -- either governmental or private.

Finally, in addressing the problems of the developing countries, we must avoid facile generalization. Each developing country, each commodity, each industry, is unique. The debt or balance-of-payments problem of a developing country, the market structure of a specific commodity, the investment requirements of a particular industry, must be dealt with on a case-by-case basis.

In line with these principles, we have repeatedly made clear that we will join with developing countries in seeking to:

- facilitate the flow of sufficient investment to promote resource development in developing countries;

- stabilize the overall export earnings of developing nations, particularly those that rely on exports of a few commodities;

- improve, in the Multilateral Trade Negotiations, access to markets for processed products of developing countries while assuring consumers reliability of supply; and

- improve the conditions of trade and investment in individual commodities and moderate excessive price fluctuations, based on a case-by-case analysis of the conditions of investment, production and the market in each commodity.

We have already taken a number of steps to help implement these goals:

On investment, we have made several important proposals. The most notable of these is to create an International Resource Bank for the purpose of facilitating direct private investment in mineral and energy extraction projects in the developing countries. The U.S. is pursuing our proposal aggressively in international forums. We have also proposed an increase of $480 million in the subscribed capital of the World Bank's International Finance Corporation, which would in effect quadruple its ability to stimulate more private investment in the developing countries. Finally, in order to encourage private portfolio flows to the developing countries, the U.S. suggested the creation of an International Investment Trust. The IFC is consulting with other governments in order to elaborate on this proposal.

On export earnings stabilization, the U.S. and other IMF members have implemented a major proposal to liberalize the provisions of the existing IMF Compensatory Finance Facility and to set aside part of the new IMF Trust Fund for concessionary loans or grants to the poorest developing countries that are hurt by earnings fluctuations related to commodities. The newly revised IMF Compensatory Finance Facility has drawings already authorized this year totaling nearly SDR 1.7 billion, compared with a previous maximum annual use of SDR 300 million and a total cumulative use of SDR 1.2 billion during the period 1966-1975. Drawings by developing countries this year have amounted to SDR 1.1 billion.

On market access, we believe that we have already demonstrated our sincerity. The President proclaimed the U.S. generalized system of tariff preferences on January 1st this year.

It has a broader product and trade coverage than any other country's: including 2700 products from 130 eligible countries, valued at $2.5 billion in 1975. We have proposed that special attention be given in the MTN to tariff escalation and we have agreed to give special treatment to LDC's in most areas of the negotiations.

Finally, with respect to specific commodity markets, the U.S. urged the creation of producer-consumer forums for those key commodities where such institutions did not exist. We are participating now in discussions we hope will result in a permanent producer-consumer forum for copper. We consistently reaffirmed our willingness to discuss with producers and consumers of any commodity ways in which their markets can be expanded and their earnings stability can be enhanced. Thus, we have participated in negotiations on and have signed the Third International Coffee Agreement and the Fifth International Tin Agreement.

During the coming months, the U.S. will be very active in a number of forums discussing commodity issues. At the Conference on International Economic Cooperation (CIEC) in Paris, discussions on commodities and other issues will proceed through the fall. The most extensive commodity work will, however, take place in the forum of the UN Conference on Trade and Development (UNCTAD). At the recent "UNCTAD IV" meeting in Nairobi last May, a resolution was agreed that outlined an intensive work program on commodities over the next year and a half. As a result of this resolution, there are two major international exercises which could have a profound effect on international markets.

UNCTAD Commodity Conferences

First, the UNCTAD resolution calls for a series of conferences on 18 specific commodities, leading, where agreed, to negotiations for formal commodity agreements or other action. This work program must be completed by the end of 1978. The U.S. has announced its intention to participate in this exercise but with important qualifications.

As we stated at Nairobi, the U.S. intends to treat these consultations as opportunities for discussions between producers and consumers about the actual problems of particular commodities. We will want to demonstrate our frequently-stated intention to join creatively and constructively in efforts to improve and strengthen individual commodity markets. Where problems are identified we will work with other participants to determine what measures might be appropriate to solve them. We expect that such analyses will reveal ways to strengthen markets to the benefit of both producers and consumers.

In some instances these conferences may demonstrate that formal commodity agreements may make sense. In these cases the U.S. will join other producers and consumers in such negotiations.

The commodity consultations have begun just this week in Geneva with a session devoted to copper. The immediate objective of these consultations should be to provide a better understanding of copper markets, and to lay the groundwork for creation of a producer-consumer forum, as we have proposed. We very much hope that this discussion does not become politicized and that the chance to have a thorough, constructive discussion of this important commodity is not lost.

A Common Fund to Finance Buffer Stocks

Second, UNCTAD IV also agreed that preparatory meetings would be held, leading by March 1977 to a negotiating conference on the creation of a Common Fund to finance buffer stocks. The U.S. also expressed serious reservations about this part of the resolution. We have taken the position that a Common Fund is not at all needed, and will not work. We believe that it is first necessary to determine whether price stabilization for a particular commodity is needed and whether a buffer stock would be an appropriate technique. Then decisions about financing can be made. Therefore, although the U.S. will participate in the preliminary discussions on a Common Fund, we will not commit ourselves to participate in future negotiations for such a fund.

A major part of the problem we have with the proposed ommon Fund is that it would involve an advance commitment funding and thus would encourage the establishment of unnecessary iffer stocks. If in the process of our discussions of the problems individual commodities we find a buffer stock is necessary to ake an agreement effective, we believe that a number of alternave means for financing those buffer stocks are available, epending on the characteristics of the market and the specific ommodity for which a buffer stock is discussed.

We conclude that technical problems or the expense of buffer stock large enough to have a market impact make buffer tocks dubious for most of the 18 commodities. The two for which iffer stocks already exist do not seem to require additional funding. hus, the case for a Common Fund seems to us very weak. It eems plainly wasteful to set aside some billions of dollars of the orld's scarce capital for this questionable purpose, when this apital is so badly needed to help promote basic economic evelopment objectives.

conomic Stockpiles

Concern about security of supplies of key international ommodities in which the U.S. is substantially import-dependent as resulted in proposals for economic -- as distinct from rategic -- stockpiles. The purpose of such a stockpile is not to oderate price fluctuations, as buffer stocks theoretically aim do: its purpose would be to insure against the risk of a supply iterruption of a non-strategic nature such as an embargo or a atural disaster. The major concerns we have with such stockpiles ave to do with their feasibility: the timing of accumulations and sposals of stocks and the determination of an appropriate size ock.

The first concern stems partly from the difficulty decision makers have in identifying probable future shortages correctly and far enough in advance to accumulate the needed stocks without unduly disrupting the market. If buying and selling of the material does not coincide with excesses and shortages then economic stockpiling can lead to disruption of commodity markets. Our experience with U.S. Government purchases of tin during the Korean conflict, which coincided with major increases in private purchases -- in both cases to guard against a possible cutoff of Southeast Asian supply -- clearly demonstrates the disruptive market impact of government intervention.

The private sector may be far more capable than the U.S. Government in identifying potential shortages, even shortages caused by political factors. Private companies have already reacted to the potential difficulty in chrome supply from Rhodesia by accumulating inventories of 370,000 tons of chrome, enough to satisfy U.S. consumption needs for nearly a year.

We do not believe there has been adequate analysis of the appropriate sizes of stocks thus far, or of the list of commodities that would be considered for contingency reserves. Though we have nearly a hundred materials in our own strategic stockpile to supply our industrial base during a war, there is great uncertainty about the amount of each material needed. Indeed, the Administration has been unable to dispose of excess materials in those stockpiles because it has not been able to reach agreement with Congress on the amount of the excess. A recent review by the Administration identified three critical commodities where there is some potential for interruption of foreign supply that might damage U.S. industry -- bauxite-aluminum, chrome, and the platinum group. However, it is also argued that the U.S. should stockpile cobalt, mercury, tungsten and nickel to guard against shortages.

In sum, we believe that economic stockpiling requires further analysis, including the timing of purchases and sales, the commodities to be stocked, and the size and cost of the stockpiles for each individual commodity. We should concentrate on assessing

the adequacy of stocks held by private industry. The National Commission on Supplies and Shortages is studying this problem among others. Until this analysis is complete we do not believe it would be in the United States interest to proceed legislatively or otherwise to establish economic stockpiles in addition to our strategic stockpiling program. Here as in our broader international commodity policy, we prefer to rely on private markets. Private industry has shown an ability to build stocks of imported raw materials as a contingency against supply disruption. Certainly, we do not want to create a disincentive for such private holdings by shifting the burden of carrying stocks mainly onto the Federal Government.

Conclusion

The U.S. Government -- the Executive Branch and the Congress -- has been engaged in a major effort to come to grips with the commodity questions posed by the developing countries. We agree with their objectives of promoting rapid, stable growth, stabilizing earnings, and diversifying their economies. We cannot fully agree with some of the solutions proposed in UNCTAD and other North-South forums. We have tried not to reject such ideas out of hand, but have analyzed them and proposed what we believe to be a workable and sound comprehensive approach to commodity policy. We believe our proposal will contribute substantially toward meeting the objectives of the developing countries while preserving the virtues of free international markets.

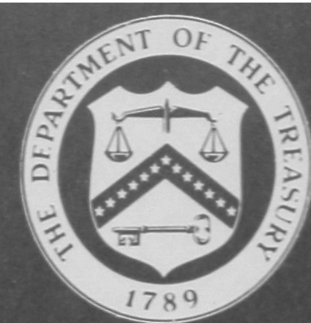
LIST OF EIGHTEEN
UNCTAD IV COMMODITIES

Commodity	Principal Exporting Countries	Existing International Forums
Bananas	Ecuador, Costa Rica, Honduras, Panama, Philippines	Union of Banana Exporting Countries (UPEB)*; FAO Intergovernmental Group on Bananas
Bauxite	Jamaica, Australia, Guyana	International Bauxite Association (IBA)*
Cocoa	Ghana, Nigeria, Ivory Coast, Cameroon	International Cocoa Organization (ICCO); FAO Intergovernmental Group on Cocoa
Coffee	Brazil, Columbia, Ivory Coast, Guatemala, Mexico	International Coffee Organizaiton (ICO)
Copper	Chile, Peru, Canada	Intergovernmental Council of Copper Exporting Counties (CIPEC)*/UNCTAD Preparatory Meeting-Fall 1976
Cotton	U.S., U.A.R, Mexico, Turkey	International Cotton Advisory Committee
Hard Fibers & Products	Brazil, Tanzania, Mexico	FAO Intergovernmental Group on Hard Fibers/UNCTAD Preparatory Meeting-Fall 1976
Iron Ore	Australia, Brazil, India, Venezuela, USSR	Association of Iron Ore Exporting Countries (AIOEC)*
Jute & Products	Bangladesh, India, Thailand	FAO Intergovernmental Group on Jute, Kenaf, and Allied Fibres /UNCTAD Preparatory Meeting-Fall 1976

Commodity	Principal Exporting Countries	Existing International Forums
Manganese	Brazil, Gabon	--
Meat	Australia, Argentina, New Zealand	FAO Intergovernmental Group on Meat
Phosphates	Morocco, U.S., USSR, Mauritania	--
Natural Rubber	Malaysia, Indonesia, Thailand, Sri Lanka	International Rubber Study Group (IRSG); Association of Natural Rubber Producing Countries (ANRPC)*/UNCTAD Preparatory Meeting-Fall 1976
Sugar	Cuba, Brazil, Philippines, Dominican Republic, Australia, Japan, USSR, Canada	International Sugar Organization
Tea	India, Sri Lanka, Kenya, Uganda	FAO Intergovernmental Group on Tea
Tin	Australia, Bolivia, Indonesia, Malaysia, Nigeria, Thailand, Zaire	International Tin Council
Tropical Timber	Philippines, Malaysia, Indonesia	FAO Committee on Forestry
Vegetable Oils	U.S., Brazil, Malaysia, Australia	FAO Intergovernmental Group on Oilseeds, Oils, and Fats

* Producer association only

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041



FOR IMMEDIATE RELEASE

September 28, 1976

RESULTS OF AUCTION OF 5-YEAR TREASURY NOTES

The Treasury has accepted $2,503 million of $4,165 million of tenders received from the public for the 5-year notes, Series G-1981, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	7.02% 1/
Highest yield	7.10%
Average yield	7.08%

The interest rate on the notes will be 7% . At the 7% rate, the above yields result in the following prices:

Low-yield price	99.894
High-yield price	99.557
Average-yield price	99.641

The $2,503 million of accepted tenders includes 23 % of the amount of notes bid for at the highest yield and $ 425 million of noncompetitive tenders accepted at the average yield.

In addition, $ 25 million of tenders were accepted at the average-yield price from Federal Reserve Banks as agents for foreign and international monetary authorities.

1/ Excepting 2 tenders totaling $201,000

WS-1105

Treas.
HJ
10
.A13P4
v.203

U.S. Dept. of the
Treasury.

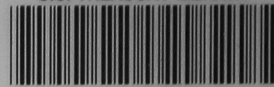
Press releases.

Treas.
HJ
10
.A13P4
v.203

AUTHOR U.S. Dept. of the
Treasury.

TITLE Press releases.

DATE LOANED	BORROWER'S NAME	PHONE NUMBER


U.S. TREASURY LIBRARY
1 0031575